

Retirement

<u>Date</u>	<u>Director</u>	<u>Other Directorships</u>
2000	M. H. Bring Senior Vice President & General Counsel Philip Morris Companies Inc. (Formerly: Senior Partner, Arnold & Porter)	Lawyers Committee for Civil Rights The Legal Aid Society - \$131,250 New York City Opera Co. New York Law Center Foundation Whitney Museum of American Art (Trustee) - \$93,150

Training/Experience
law, government

Retirement

<u>Date</u>	<u>Director</u>	<u>Other Directorships</u>
2000	W. H. Donaldson Chairman & CEO New York Stock Exchange, Inc. (Formerly: Dean of the Graduate School of Management of Yale University William S. Beinecke Professor in Management Studies Counsel to the Vice President of the United States U.S. Undersecretary of State Co-founder, Chairman and CEO Donaldson, Lufkin & Jenrette, Inc.)	Aetna Life & Casualty Co. Business Council of the State of New York Carnegie Endowment for World Peace Council on Foreign Relations - \$7,500 Honeywell, Inc. Lincoln Center for the Performing Arts, Inc. - \$452,150 Marine Corps Command & Staff College (Trustee) National Executive Service Corps - \$5,000 New York City Partnership - \$62,500 St. Lawrence University (Trustee)

Training/Experience
finance, education, management,
government

Retirement

<u>Date</u>	<u>Director</u>	<u>Other Directorships</u>
2000	K. R. Murdoch Chairman & CEO The News Corporation Limited	None

Training/Experience
publishing, motion pictures,
television

Retirement

Date

Director

Other Directorships

2001

R. W. Murray

President and COO

Philip Morris Companies Inc.

Training/Experience

finance, accounting, marketing

Alvin Ailey American Dance Theater - **\$306,150**American Museum of Natural History - **\$64,000**International Tennis Hall of Fame - **\$29,500**Polytechnic University (Trustee) - **\$21,000**United Negro College Fund - **\$1,057,650**

Retirement

Date

Director

Other Directorships

2004

M. A. Miles

Chairman of the Board & CEO

Philip Morris Companies Inc.

Training/Experience

advertising, marketing, fast food

Business Committee for the Arts, Inc. - **\$20,000**

The Business Council

The Business Roundtable

The Chicago Council on Foreign Relations - **\$10,000**The Conference Board (Trustee) - **\$50,750**

Grocery Manufacturers of America, Inc.

J.L. Kellogg Graduate School of Management - **\$30,000**Junior Achievement of Chicago - **\$100,000**The Lyric Opera of Chicago - **\$44,000**National Multiple Sclerosis Society - **\$186,895**

New York Chamber of Commerce and Industry

New York City Partnership Inc. - **\$62,500**President's Advisory Committee for Trade Policy
and Negotiations

Sears, Roebuck and Company

Retirement

Date

Director

Other Directorships

2004

R. S. Penske

President

Penske Corporation;

Chief Executive Officer,

Detroit Diesel Corporation and

Penske Truck Leasing Corporation

Training/Experience

transportation,

automotive technology,

retail sales

American Express Company

Conner Peripherals, Inc.

Henry Ford Museum & Greenfield Village (Trustee)

Shearson Lehman Brothers Holdings, Inc.

Retirement

DateDirectorOther Directorships

2007

E. E. Bailey, Ph.D.

John C. Howard Professor of
Public Policy & Management,
The Wharton School of the
University of Pennsylvania
(Formerly:
Dean, Graduate School of
Industrial Administration,
Carnegie-Mellon University;
Vice-Chairman, Civil Aeronautics
Board)

Brookings Institution
College Retirement Equities Fund
CSX Corporation
Honeywell Inc.
National Westminster Bancorp Inc.

(Note: \$3,500 contributed to The Wharton School.)

Training/Experience
economics, research, teaching

Retirement

DateDirectorOther Directorships

2008

J. S. Reed

Americas Society

Chairman

Citicorp and Citibank, N.A.

Training/Experience
engineering, finance

Center for the Advanced Study in Behavioral Sciences
Corporation of MIT (Member)
Memorial Sloan-Kettering Cancer Center (Board of Managers)
Monsanto Co.
National Bureau of Economic Research, Inc. - **\$10,000**
(Trustee)
Rand Corporation
Russell Sage Foundation (Trustee)
Spencer Foundation

Retirement

DateDirectorOther Directorships

2013

J. Evans

Vice President & General Manager
Home & Personal Services
Division
U.S. West Communications, Inc.

Training/Experience
marketing, direct mail,
retailing

Catalyst - **\$21,150**
Edison Brothers Stores, Inc.
Ladies Professional Golf Association
Maidenform Inc. (Advisory Board)
The Phoenix Heard Museum
Women's Forum
Young Presidents' Organization

Retirement

Date

Director

Other Directorships

2017

R. D. Parsons
Chairman & CEO
The Dimes Savings Bank
of New York, FSB

Training/Experience
law

Federal National Mortgage Association
Howard University (Trustee) - **\$75,000**
Metropolitan Museum of Art (Trustee) - **\$267,000**
Rockefeller Brothers Fund
Time Warner Inc.

Emeritus Directors

Retirement

Date

Chairman Emeritus

Other Directorships

Permanent

J. F. Cullman 3rd

Chairman Emeritus
Philip Morris Companies Inc.

Training/Experience
business, marketing

African Wildlife Foundation
American Museum of Natural History (Trustee) - **\$64,000**
Atlantic Salmon Federation (U.S.) (Chairman)
IBM World Trade Europe (Honorary Director)
International Tennis Hall of Fame - **\$29,500**
(Chairman of Executive Committee)
Walt Disney Company (Director Emeritus)
World Wildlife Fund - The Conservation Foundation
(Chairman Executive Committee) - **\$62,500**

Corporate Governance

2045757819

Index to Corporate Governance SectionShareholder Proposals

1. Shareholder proposals & withdrawn proposals Page 1

General

1. Procedure for CEO performance review Page 2
2. Separate Chairman and CEO
3. Communications between shareholder groups
4. Withholding votes for directors
5. Serving on other boards
6. Influence of outside groups on corp. structure Page 3
7. Board disagreement with management decisions
8. Involvement of Board in management
9. Availability of CEO to shareholders
10. Contact between outside directors & top mgt Page 4
11. Communication between shareholders & mgt

12. Poison pills Page 5
13. Confidential voting Page 6
14. Ban on golden parachutes
15. Special Committees
16. Ethics Committee or Social Respons. Ctee Page 7
17. Composition of Nominating or Comp. Ctees
18. Shareholder Advisory Committee
19. Keeping outside directors informed
20. Formulation of company strategy by Board

21. Sale of stock by instit. investors Page 8
22. Mr. Murray's exercise of options Page 9
23. Disposal of stock by officers or directors
24. Reason for exercise of options
25. Female or minority directors Page 10
26. Percentage of outside to employee directors
27. Number of people on Board

28. Director conflicts of interest Page 11
29. Director independence
30. Criteria of independence
31. Should former CEO be on Board Page 12
32. Environmentalist on Board
33. Employee representative on Board

2045757820

34.	Criticism of Mr. Murdoch	Page 12
35.	Mr. Murdoch's late reporting of stock transactions	Page 13
36.	Frequency of Board meetings	
37.	Duration of Board meetings	
38.	Attendance of directors at Board meetings	
39.	Directors' fees	
40.	Time spent by outside Dirs. on company matters	Page 14
41.	Locations of Board meetings	
42.	Rotation of annual meeting locations	
43.	Nominations from floor	
44.	Cost of annual meeting	Page 15
45.	Post-meeting report and transcript	
46.	Size of auditorium	
47.	No Smoking section in auditorium	
48.	Audit Matters - internal controls	Page 16
49.	Reporting of auditors to Audit Committee	
50.	Audits of competitors by Company auditors	Page 17
51-55	Questions from "The Heroes"	Page 17-20
--	New questions on Benefits to Directors	Page 21

2045757821

1. Shareholder Proposals

Three Shareholder Proposals will be presented at the meeting. The speaker for the first one, on the Voluntary Code of Cigarette Advertising, will be Dr. Connolly. He might start the proceedings with a dramatic gesture on the order of:

“Before I present my proposal on the Voluntary Code, I would ask all those present to bow their heads and say a prayer for Wayne McLaren, the former Marlboro Cowboy who died of cancer caused by smoking Marlboro cigarettes”.

Dr. Connolly (or Father Crosby) could well give a short prayer, to which our answer should be:

- “Thank you. Let us now proceed with the meeting.”

NOTE: This scenario did not take place at the RJR meeting.

The other two Shareholder Proposals are concerned with:

Global Warnings - covered in Q. 1 under Labeling and Proxy Statement. This same proposal was submitted at last year's Annual Meeting,

Shareholder Rights (poison pills) - covered in the Proxy Statement

Subjects of Withdrawn Shareholder Proposals:

- a) Lobbying Activity - to require Company to produce annual report of lobbying on anti-smoking legislation, including the specific amounts expended there\for.
- b) Confidential Voting of proxies: Philip Morris adopted a form of confidential voting and our policy can be found on page 1 of the Proxy Statement.
- c) CERES Principles asks the Company to endorse a number of environmental principles.
- d) Moderate Drinking - to require the Company to adopt a federal government definition, and use it in public service announcements and report to shareholders.
- e) Cheese Exchange - creation of review committee on stabilizing milk prices.

2045757822

General

1. What procedures are in place to review CEO performance?
 - to be handled by MAM personally
2. What is your position on separating the offices of Chairman and CEO?
 - to be handled by MAM personally
3. Has there been any impact on Philip Morris from the new SEC regulations enabling shareholder groups to communicate with each other without violating proxy rules?
 - We don't know of any
4. Is it possible that major shareholders might withhold votes for directors?
 - Anything is possible, but I would hope that this would not happen. We give much thought and consideration to each nomination in order to obtain the person we consider best qualified for the job.
5. With the problems presently being faced by Philip Morris, how can you justify spending time on the boards of other companies, like Sears?
 - First of all, let me say that I serve on only one outside company board.
 - It is important for a chairman to serve on other boards because it provides valuable experience and ideas.
 - If we expect to attract other qualified board members, we must in turn be willing to serve on other boards.

2045757823

6. Have you had any indication that any large group, such as CalPERS might want to try and make changes in PM's corporate structure, as happened at Sears?

- No.

7. Have there been any instances in which the Board disagreed with a significant management decision?

- Not to my knowledge.

8. Do you think that Boards of Directors should take a more active role in management?

- There is nothing wrong with Boards being active. As a matter of fact, all the Boards I know play a very active role. At the moment there is a lot of media hype about inactive boards, but unless you are in fact serving on a board you are not in a position to know how active or inactive it is.

9. Is the Company's CEO available to meet with shareholders upon request, and if so, on what basis?

New

- Yes, from time to time when such requests are made. Each matter would have to be reviewed on its own merit. In any case, we have a very active Investor Relations department which is always available for meetings or to give information.

2045757824

10. Is there much contact between outside directors and the company's top managers who do not sit on the Board?
- Monthly board meetings offer regular opportunity for contact.
 - Managers attend Board luncheons.
 - Top managers make presentations to the Board, and attend major Board planning meetings and trips.
 - There are informal question and answer sessions between the two groups.
- (new) • The company's top managers participate with the directors in a three day strategy session to set the Company's Five Year Plan.
11. How much communication is there between ordinary shareholders and top management?
- Regular program of meetings between senior management, financial analysts and representatives of major institutions who are the beneficial holders of millions of shares of PM stock owned by "ordinary" shareholders.
 - Company policy is to maintain open communication with all of its shareholders/owners.

2045757825

12. When does the Company's shareholder rights plan (poison pill) expire, and what is your position with respect to extending the plan?

- The Rights Plan was passed by the Board on October 25, 1989. The Rights will expire on October 25, 1999 unless redeemed earlier or exchanged by the Company. It is discussed in the 1992 Annual Report on page 45, Note 7.
- We feel that redeeming the Rights at the present time would deprive the Board of an important tool in preserving the long-term value of the Company and the investments of our shareholders.

- (new) • Further, an important study completed recently at a leading university (Rochester) concludes there is no evidence that the mere existence of anti-takeover measures contributed significantly to the end of the takeover boom of the 1980's. Contrary to the position taken by proponents, the study suggests that shareholder rights plans are "reliably associated with larger premiums for shareholders who sell their shares in a successful takeover."
- The Company's position regarding the plan may be found on page 20 of the Proxy Statement.

2045757826

13. What is the Company's policy on confidential voting?

- (new) • Policy is stated on page 1 of Proxy Statement: proxies and ballots that identify the vote of individual shareholders will be kept confidential, except:
- as necessary to meet legal requirements - in cases where stockholders write comments on their proxy cards, or in a contested proxy solicitation.
 - During the proxy solicitation period, the Company will receive aggregate vote tallies from its Independent Proxy Solicitor, but not the name of stockholders. The Independent Proxy Solicitor will notify the Company if a stockholder has failed to vote so that he or she may be reminded and requested to vote.

14. Are you considering a ban on golden parachutes?

- (new) • No. We believe that employment contracts are essential in order to attract and retain superior employees who hold top management positions.

15. What do you think of shareholder demands that special committees be formed to investigate issues of current concern?

- Our current Board Committees are well equipped to handle ongoing issues as well as to address newly emerging ones. We do not believe that special committees would serve any additional useful purpose.

2045757827

16. Has the Board formed an Ethics Committee or Social Responsibility Committee?
- Yes. The Committee on Public Affairs and Social Responsibility has been in existence for over 20 years.
17. Do the Nominating and Compensation Committees comprise only outside Directors?
- Yes.
18. Why has the company not established a Shareholder Advisory Committee of the Board?
- Not necessary. All the directors are responsible to all the shareholders.
19. How does the company keep its outside directors informed of company matters?
- Meet 11 times per year.
 - Regular reporting of all company operations at monthly board meetings.
 - Annual three-day planning session to review company's 5-year plans.
 - Presentations on specific operations at each board meeting.
 - Answer questions as they arise.
20. How does the board actually participate in formulating company strategy?
- By reviewing and analyzing company's 5-year plans.
 - By reviewing and analyzing all new investments exceeding \$5 million and all increases in existing investments over \$25 million.

2045757828

21. Have any institutional investors sold large amounts of Philip Morris stock lately?

- There have been both sales and purchases:
- Fidelity Management & Research has sold 4.4 million shares. As of April 12, it still owned one million shares, compared to 5.4 million on record as of March 11.
- Putnam Management sold 950,000 shares.
- Bankers Trust's managed funds sold 900,000 shares.
- Colorado Public Employees' Retirement System sold approximately 500,000 shares.
- On the other hand, Swiss American Securities bought one million shares on April 2.
- There were increases by brokers acting significantly on behalf of speculative interests:

Bear Stearns	up 1.3 million shares
Dain Bosworth	up 0.9 million shares
Goldman Sachs	up 0.7 million shares
First Boston	up 0.7 million shares
Wagner Stott	up 0.6 million shares

- Retail customers of Charles Schwabb and Merrill Lynch purchased 1.1 million shares on April 2.
- (new) • We have no knowledge of Warren Buffet's shareholding position. 7
[However, two analysts advised us a few days ago that, to their knowledge, there had been no movement in this portfolio].

2045757829

22. Mr. Miles, I'd like to ask Mr. Murray this question. Mr. Murray: In 1992 you exercised options on 406,000 shares and you realized a value of approx. \$20 million. As you no longer have any shares that may be exercised, does this mean that you have lost faith in the company?

- To be handled by Mr. Murray, who may wish to include in his answer that he exercised but - despite recent press reports, which were later retracted - did not sell any shares acquired thereby and that his exercise of options has made him a holder of a significant number of shares, demonstrating his strong faith in the future of the company.

23. Have any officers or directors or their associates disposed of large blocks of the company's stock recently?

- October 1992, John Richman exercised option for 72,000 shares and sold them.
- December 1992, John Tucker exercised option for 58,500 shares and sold them.

24. Why did they exercise their options?

- We do not know, and we do not make enquiries into the actions of individuals as long as they conform to SEC regulations.

2045757830

Composition of Board

25. Why don't you have more women and minorities on the Board of Directors?

- At this time we have two women Directors and one African-American on the Board.
- There have been times when there were more women and minorities on the Board. As a company committed to diversity, we are constantly evaluating the qualifications of people who can be good contributors to the Board.
- We don't have a quota system. We try to strike the right balance.

26. What is the percentage of outside to employee directors?

- Out of a total of 19 directors, 4 are employee directors - Murray Bring, Bill Murray, Hans Storr and myself.

27. Some people might think that having 19 people on the Board makes it cumbersome. Is any consideration being given to decreasing this number?

- No.
- Over the years we have had larger boards. We consider that our present board is the right size, giving us the diversity and experience we need.

2045757831

28. Are there any directors who might face possible conflicts of interest because they sit on the boards of other companies with whom PM deals?

- Our lawyers have looked at any possible conflict of interest, and they do not feel there are any.

29. How independent are your directors? Aren't most of them tied to the company in one business or another?

- We have a very distinguished Board and we are delighted they are willing to serve.
- Our directors are very independent - both according to the SEC definition and in the way they approach issues.
- There are no interlocks reflected in our Board membership.
- It is by no means unusual for big companies like ours to have its bankers or lawyers on the Board.

30. What criteria does the Nominating Committee use to establish the independence of Directors? Describe any interlocking relations among the directors.

- We use the same criteria as when we look for Directors in general, like:
 - (1) multinational business experience
 - (2) diversity
 - (3) governmental experience
 - (4) academic experience
 - (5) genuine interest in our business.
- We don't seek out individuals who have relationships with the company.

2045757832

31. Do you think it is in the Company's interest that former CEO's should be on the Board?
- Yes. Hamish Maxwell and John Richman have a wealth of experience in dealing with the many issues our company faces today.
 - This experience is of great value to current management and provides continuing value for our shareholders.
32. Has the Company considered adding an environmentalist to the Board?
- No. All our Directors are responsible to all shareholders in every category of the company's operations, including environmental matters.
33. Are you thinking of having an employee representative on the Board?
- No.
34. Rupert Murdoch was critically portrayed in a biography published earlier this year. How do you react to these critical comments on him?
- Rupert Murdoch has broad international experience, and we are happy to have him on our Board.

2045757833

35. This is the second consecutive year Mr. Murdoch has failed to report stock transactions in a timely matter. Mr. Murdoch, what seems to be the problem?
- [Depending on the form of the question, Mr. Murdoch or Mr. Miles may wish to consider the following: In each case, transactions involved a small number of shares which were overlooked inadvertently. As soon as the oversights were discovered, reports were filed immediately.]
36. How often does the Board of Directors meet?
- Eleven times a year. Every month except July.
37. How long do board meetings last?
- Approximately three hours.
38. What was the average attendance of the directors at the board meeting?
- 90%.
39. Are directors paid their fee if they are absent?
- No.

2045757834

40. How much time do outside directors spend on company matters?

- Each director is member of one or more committees, some are members of four committees, and each committee meets 3 to 5 times a year for at least an hour each.
- Directors also attend 11 regular Board meetings a year, which last about 3 hours each.

41. Where were Board meetings held in 1992?

- Nine meetings at Philip Morris headquarters in New York, one in Washington, D.C., and one in Richmond.

Annual Meeting Arrangements

42. Has the Company considered rotating the annual meeting among locations with large shareholder concentrations?

- We have considered it, but Richmond is the traditional home of Philip Morris.
- The Company is incorporated in Virginia. We have many shareholders, employees and retirees in the Old Dominion.

43. Can nominations to the Board of Directors be made from the floor at the Annual Meeting?

- No. The company's By-Laws provide that such nominations must be made in writing during a specific period following the date of the previous year's proxy statement.

2045757835

44. What is the cost of holding the annual shareholders' meeting?
- The cost in 1992 was approximately \$2,000,000
 - This included \$475,631 for printing of the proxy statements, and \$880,261 postage for mailing them and Annual Reports. The rental of the tent and related expenses amounted to \$195,000.
45. Will a post-meeting report and a complete transcript be sent to shareholders?
- Yes. A post-meeting report is included in our First Quarter Report mailed to shareholders in June.
 - A complete written transcript is available upon written request to the Corporate Secretary.
46. Why can't we hold the shareholders' meeting in an auditorium large enough to accommodate everybody?
- We could, but we like holding our meeting on our own premises. We feel it is part of the Philip Morris tradition.
47. Why isn't there a No Smoking section in this auditorium?
- No request has been received.
 - If we get a request in the future, we want to be reasonable and will consider it.
 - As I'm sure you've noticed, this auditorium has very good ventilation.

2045757836

Audit Matters

48. What steps have been taken to strengthen internal controls to prevent kickbacks and other employee-vendor fraud?
- The Company maintains a system of internal controls to ensure that:
 - (a) transactions are executed in accordance with management's authorization and properly recorded,
 - (b) assets are safeguarded and
 - (c) accountability for assets is maintained.
 - A professional Corporate Audit staff monitors the effectiveness of the controls.
 - Key employees and Directors are sent the Business Conduct Policy annually. They must certify compliance with the policy each year and are requested to submit exceptions to such policy to the General Auditor or the Secretary of the Audit Committee for review.
 - This year a special 800 number has been put in operation for the use of employees wishing to report any wrongdoing but preferring to remain anonymous.
49. Do the Corporate auditors report directly to the Audit Committee?
- The General Auditor, who heads the Company's Corporate Audit Department, reports directly to the Executive Vice President and Chief Financial Officer, and has direct access to senior management and the Audit Committee at his discretion.

2045757837

50. What does the Company do about auditors also auditing its competitors?

- Coopers & Lybrand has strict internal policies relating to the confidentiality of client proprietary information.
- It maintains separate engagement teams so that the same personnel would not serve major competitors.

Questions from "The Heroes" (Committee of Concerned PM Employees)

(Whole section is entirely new)

51. Why did the Proxy Statement fail to inform shareholders of the business affiliations of the Directors, a failure that constitutes fraud by omission?

- First, we reject your suggestion of fraud by omission. The Proxy Statement did not "fail to inform" shareholders of the business affiliations of our Directors. Indeed, their business titles and directorships are set forth very clearly. The information in our Proxy Statement is required by the disclosure rules of the SEC. We comply fully with those rules.
- The business relationships to which you refer are common and usual, permitted by the regulatory authorities and conducted – in all cases – at arms length.

2045757838

52. How can you justify the presence on the Board of many Directors whose qualifications and performance on other boards is suspect at best?

- Prospective members of the Board are previewed extensively by its nominating committee. The qualifications of each nominee to serve are examined exhaustively by the committee before it makes a recommendation to the Board.
- Many of our Directors also serve on the boards of some of this country's most outstanding companies. They bring a wealth of valuable experience to your company.
- We are fortunate to have such an outstanding Board. Your criticisms are simply unfounded.

53. Why did the Company deliberately misrepresent itself to the shareholders by concealing 1992 trade imbalances?

- We have never concealed trade imbalances.
- Inventory management in the tobacco industry is a very complex subject. I shall not attempt to explain how and why we made some of the decisions we made. Such a discussion could take hours.
- Any trade imbalances which may have existed resulted from reasonable sales assumptions which proved later to be incorrect. Both we and the trade made many of the same assumptions.
- You may assume that remaining trade imbalances are being rectified.

(continued on next page)

*Want to insure availability of
Morbore at retail*

- We can state categorically that our returns have been minimal, which leads to the conclusion that although some of the sales assumptions were more aggressive than others, the vast majority were correct.
- It should be noted that we want to ensure enough supply, and a certain minimum level of inventory is necessary.

54. Why does the Board retain so many inside members ("a full one third") who have a vested interest in maintaining the status quo? Are you willing to reduce inside directors to two by 1994? How can the independence of the outside directors be guaranteed when so many of them do extensive business with the Company?

- We do not accept your premise. Of the 18 Board members standing for reelection, 4 are insiders – Mr. Murray, Mr. Storr, Mr. Bring and myself.
- Messrs. Maxwell and Richman are no longer involved in the day-to-day operations of the business. *(Rest omitted as you requested)*
- The six outsiders whose firms do business with the Company and whose independence you impugn have also demonstrated their absolute independence time and time again.
- I cannot say what the Board will do but I suspect it will not reduce the inside directors to two by 1994 because there is absolutely no reason for it to do so. Nor is there any reason to ask directors to refrain from doing business with the Company. I can represent to you now that each such director is totally independent.

2045757840

55. Mr. Miles, are you ready to take responsibility for the Company "tumbling into the abyss" in which it now finds itself? Are you prepared to face legal action against the Board and management brought by shareholders and employees?

- Again, your premise misses the mark. For 1992, *Business Week* listed your company as the most profitable in the U.S. There are hundreds of large companies in the U.S. which can only hope, someday, to match our outstanding financial performance.
- We have made a course correction, and we intend to make good on our promise to perform.
- Yes, the Board does hold me responsible for running this company and I intend to demonstrate that it is on the right path.
- We believe that lawsuits such as the one you suggest would prove to be a waste of your time and money.

2045757841

New (4/21) Questions on Benefits to Directors

1. Why give non-employee directors 400 shares of stock in addition to retainers and fees?
 - This is a mechanism designed to increase the ownership position of our directors rather than provide only cash compensation to directors.
 - We feel that it is important to align directors' interests with those of shareholders.
2. Why give directors retirement benefits?
 - For competitive reasons; most large companies provide such benefits.
 - This rewards Board members for longer terms of service. It acts as a retention vehicle.
3. What other benefits do you provide outside directors?
 - Outside directors receive the following "benefits": Reimbursement for business travel; and Life insurance.
 - Outside directors have access to the following on a contributory basis (pay 100% of premium): Medical insurance; Dental coverage; Pension; and Voluntary deferral opportunity for director fees.
4. Why does Mr. Miles have an agreement specifically related to termination benefits?
 - When the KGF severance agreements were eliminated, it was agreed that all KGF employees, in the event they were involuntarily terminated, would be eligible for a severance arrangement.
 - Severance arrangements were very much in use on competitive basis.

2045757842

Additional Questions (sent by Wachtell, Lipton, April 13)

1. Did the Company engage in discussions this proxy season with any shareholder or shareholder group concerning the inclusion or exclusion of any shareholder proposal in the Company's proxy statement? If so, give details.
 - The Company engaged in discussions with all shareholder proponents, resulting in withdrawal of the majority of the proposals. Pls. refer to page 1 of this section.
2. What are the procedures for director nominations? How were the nominees selected? Is shareholder input sought in the nomination process?
 - Nominations for directorships must be submitted in writing during a period specified in the By-Laws (Article II, Section 4). Shareholders are always free to submit nominations.
3. On average, on how many boards of directors do the Company's independent directors serve? What is the highest number of directorships held by a Company director?
 - On average, the number is five.
 - Highest number of directorships held by a Company director is nine (J.D. Nichols)
4. How much stock do the directors own and, generally speaking, is it an important percentage of their respective portfolios?
 - Number of shares owned by directors can be found on page 9 of Proxy.
 - We have no way of knowing whether this is an important percentage of their respective portfolios. They are under no obligation to communicate this information.

2045757843

5. We would like information on director compensation programs, board committees and director participation.
 - Directors' compensation is fully set out on page 8 of the Proxy.
 - Composition of board committees can be found under individual names in Proxy (pp. 3-7).
 - Director participation is reviewed in Q. 20 of this section.
6. If compensation of top executives is set relative to a peer group, what is the relationship sought to be achieved - e.g. median, top quartile, etc.?
 - Top quartile - pls. see "Components of Compensation", page 10 of Proxy.
7. How much stock is owned by the CEO and top five most highly compensated officers as a group?
 - Listing of the most highly compensated officers of Company can be found on page 13 of the Proxy, and their individual shareholdings, listed by name, on page 9.
8. How do the Company's incentive plans work (eg hurdle rates etc.)?
 - Our incentive plans do not contain hurdle rates. The incentive reserve is limited to a percentage of the cash dividends paid to our shareholders, (see also pp. 10-11 of the Proxy).
9. Who are the members of the Compensation Committee and what are their qualifications for serving on such committee? Are there Compensation Committee interlocks?
 - List of members is on page 11 of Proxy. Their qualifications are of the same calibre as those of other directors and the criteria used are listed in Q. 30 of this section.
 - There are no interlocks reflected in our board membership.

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Environment

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ENVIRONMENT

(rev. 4/12)

1. Why haven't PM Companies signed the CERES (Valdez) Principles?
 - Because our statement of Environmental Principles, which was published in 1992, is substantially similar to the CERES Principles in both word and deed.
2. Does the Company support federal RCRA (Resource Conservation Reauthorization Act) legislation that would regulate its packaging materials in order to reduce the amount of waste going to landfills?
 - Yes, but PM USA and KGF also emphasized the issues of food safety (protecting food from contamination) and prevention of product tampering.
 - Extensive progress made through voluntary industry efforts to recycle, reuse and reduce packaging. Market-driven recycling and source reduction are more effective than mandated "rates and dates" set by legislation.
3. How does PM USA reduce the amount of solid waste sent to landfills?
 - We reuse or recycle manufacturing by-products and materials, diverting millions of pounds away from landfills every year.
 - PM is a leader in this field. Was the first company in US to commit its entire waste stream from a major site to a private materials recovery facility.

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4. What is KGF doing about its solid waste?
 - Over the last 10 years, we have eliminated over a billion pounds of packaging from the solid waste stream.
 - We were the first food company to use recycled plastics in a food container when we introduced a 24-oz. dressing container containing 25% recycled PET (polyethylene terephthalate).
5. What is KGFI's position regarding cleaning up the environment?
 - All Philip Morris Companies have the same philosophy on the desirability of a clean environment.
 - Some KGFI examples: reduced overall weight of packaging materials by 7,500 tons a year in KGF Europe; reduction of aluminum content of Jacobs coffee packaging from 465 tons to 2 tons a year, etc.
6. What's the solution to the solid waste problem?
 - A joint effort by all concerned using a combination of waste management options, such as source reduction, recycling, composting, waste to energy incineration, landfilling.
7. What has Oscar Mayer done to reduce solid waste?
 - Reduced packaging of Lunchables by 45%.
 - Removed all heavy metals used in inks associated with OM packaging.

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8. What does Miller do with its paper waste?
 - Paperboard is either recycled or reused.
9. Is Miller's packaging recyclable?
 - All Miller's packaging is recyclable.
 - All glass and aluminum containers are easily recycled through curbside programs or voluntary drop-off centers.
10. Does Miller use recycled material in its packaging?
 - Yes. Aluminum cans made from nearly 100% recyclable materials.
Bottles are made from approx. 40% recycled materials.
11. What has Miller done by way of source reduction?
 - Since 1961 amount of aluminum in cans reduced by about 45%.
 - Since 1986 weight of glass bottles reduced by more than 20%.
 - By 1995 expect to discontinue completely sending material from breweries to landfill.
12. What is KGF doing to improve its environmental compliance status?
 - Task group systematically reviewed our compliance programs, and its recommendations have been incorporated in 1993 business and individual MAP (Management Appraisal of Performance) goals for phased implementation.

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13. What is PM's position on reauthorization of Superfund?
- PM supports the cleanup of toxic waste sites and believes the Superfund approach to this costly task is generally the proper one.
 - But it must consider liability issue so that companies are not exposed to liability out of proportion to their involvement in any particular site.
14. What is KGF's position on environmental marketing claims?
- KGF joined in asking the FTC to issue environmental marketing guidelines, which the FTC did last year. These "green marketing" guides are significant step to assure dissemination of uniform and truthful labeling and advertising information to consumers.
 - Unfortunately, there are still many conflicting state and local laws and regulations. A uniform national standard is needed.

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15. What is the corporate position on animal testing?

- (new) • Kraft has a very strong policy regarding the limited use of animals for research. Kraft uses rats, mice, hamsters and rabbits for nutrition and microbiological studies only. Studies are designed so that animals are not subjected to pain or distress.
- To ensure this, Kraft has an actively functioning Animal Welfare Committee, comprised of Kraft scientists, a local veterinarian and a local high school science teacher not affiliated with Kraft. This committee reviews all experimental protocols using laboratory animals. Treatment of animals is an integral part of this review process. We use animals only when necessary and use as few as possible.
 - The Glenview Tech. Center performs nutritional and microbiological testing with animals, while the Tarrytown facility contracts with outside medical facilities. Kraft is licensed and inspected by the Animal and Plant Inspection Service of the USDA. We also file an annual report, signed by a vet, on the number and type of animals used.
 - Kraft also has an active program for the development of in vitro methods. However, complete elimination of animal tests would not be in the public interest, since it would increase costs and possibly increase risks to humans.
 - We do no testing in the U.S. with respect to smoking research.

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16. Is Oscar Mayer sensitive to animal rights and animal welfare issues?
- Yes. Oscar Mayer purchases meat and poultry ingredients from those processors who certify compliance to USDA Humane Slaughter laws and regulations.
17. Oscar Mayer grows and processes turkeys. Do they follow good animal welfare practices?
- Yes. All company grown turkeys are produced under appropriate housing and feeding practices. All turkeys are processed and handled in compliance with USDA Humane Slaughter regulations.
18. Why isn't Philip Morris doing anything to support redevelopment efforts in South-Central Los Angeles?
- (new) • We made two contributions in the area:
- GF USA gave \$10,000 to the Mexican American Grocers Association to study the impact of the disturbances on Latino businesses.
 - PM USA donated \$5,000 towards a banquet of the National Korean American Grocers Association, the proceeds of which went to the victims of the disturbances.
 - We have been and will continue to be very active in our support of initiatives which assist diverse parts of the Los Angeles community.

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19. Why has Philip Morris not yet supported the ICC's charter for Sustainable Development?

(new) • We agree with the general theme of Sustainable Development.

However, we believe each company must design and abide by its own principles, driven by the nature and scope of its operations. PM has its own environmental principles that address our environmental concerns.

- By way of background: In 1991 the International Chamber of Commerce (ICC) established a task force to create a Business Charter for Sustainable Development to ensure a balance between economic growth and environmental protection. Initial support was given by 200 corporations and by 1972 over 700 have signed the 16 Principles of the Charter.
- Charter is becoming a litmus test of environmental responsibility. It serves as a foundation for proactive business group initiatives on environmental matters. Even though PM runs the risk of being identified as a company against sustainable development, the legal department had some concerns about sections of the Charter with respect to tobacco issues. KGF reviewed the matter and is waiting on action by the competition.

20. PM is committed to the principles of Total Quality Management in execution of its business objectives. Does PM support these same management principles with respect to achieving its environmental goals?

- We believe TQM is essential in order to achieve all of our business objectives.

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21. EPA has initiated a number of voluntary programs for improving the environment - programs such as 33/50 (allows industry to reduce the amount of toxic chemicals used in manufacturing) and green lights (encourages companies to switch to efficient lighting fixtures). Why hasn't PM joined these programs?

- (new) • We support the goals of both programs. However, we believe each company must design and abide by its own principles.
- Even though we have not formally signed on, we are initiating actions that are consistent with the spirit of these programs. PM uses very few of the 17 chemicals mentioned in the EPA's 33/50 Program, and we are initiating steps to reduce the few chemicals that we do use. For example, KGF has implemented measures to reduce two of the EPA-listed chemicals.
 - Re Greenlights Program, we try to minimize our operating costs on an ongoing basis. Reducing our energy usage is part of our program.

22. What did Philip Morris do to celebrate Earth Day (April 22)?

- We did not celebrate this occasion by participating in any special event since we are working on the safeguard of the environment on a 365-day basis. All our companies are conscious of the crucial importance of the environment and have programs established to this effect.
- The programs outlined in our recent booklet "The Environment: Our Principles and Actions" are still in place.

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Executive Compensation

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EXECUTIVE COMPENSATION

1. In light of weak performance of the stock, don't you think management is overpaid?
 - No.
 - Management's pay is in line with the peer group.
 - A large portion of the compensation consists of long-term incentives, such as stock options. Thus when the price of Philip Morris shares drop, management is affected the same way other shareholders are. In other words, your pain is our pain.
2. What justification did the Board have in giving you stock options for 500,000 shares in January of 1992, and then following that up with more stock options in June?
 - The January 1992 award you refer to was made in recognition of my appointment as Chairman and CEO.
 - The option price for 400,000 of those shares was \$100 each, which was 30% higher than the market price on the day I received them. That means that I would only make money on the stock if the market price were to exceed \$100 per share. If that were to happen, and I am working very hard to see that it does, my gain would be your gain as well, because the value of your investment would have increased substantially too. The remaining 100,000 shares were awarded with a grant price based on the fair market value for that day.
 - The stock options I received in June of 1992 were consistent with Philip Morris' historical stock option grants procedures, which award grants at current option prices in amounts which are in line with peer group companies.

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3. What is the relationship of the Company's CEO cash compensation to typical individual plant worker's cash compensation?

- 51:1 for Philip Morris; and
- The "typical" (for large Fortune-ranked industrial) ranges from 55:1 to 70:1.

Note: more will be added to this answer on Monday 4/19

4. Are you planning to freeze executive salaries as a result of the April 2 announcement?

- (new) • We have no plans to freeze executive salaries.
- Our basic salary structure is not excessive. It is competitive.
 - We want to keep it competitive in order to attract and retain key executives.

5. Will you reduce executive bonuses and salaries this year?

- (new) • I do not know since the compensation of our most senior executives is set by the Compensation Committee of the Board.
- The Committee will continue to review that compensation in 1993.
 - The report of the Compensation Committee which appears in your Proxy Statement (pp 9-11) makes it clear that compensation has always been based on performance. This has how we have always done it and how we expect to continue to do it.
 - The Committee could decide that compensation and/or bonuses will be affected by performance measured against these new strategies.

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6. The issue of Hamish Maxwell's compensation still arises from time to time in round-up articles or charts. If a question is asked:
- Hamish Maxwell's base salary and annual bonus in 1991 were equal to median levels paid by comparable companies. The balance of his compensation was the result of gains in both stock option grant exercises (\$13.9 million) and vesting of restricted stock (\$8.5 million). Both these awards were grants to Hamish in prior years (1986, 1987, 1988).
 - His compensation was directly related to his contribution to the creation of shareholder wealth. During Hamish's period of tenure, Philip Morris's total return to shareholders grew at a compound annual rate of 40.0%.
7. Is it fair for management compensation to increase while you are cutting benefits (e.g. supervisor overtime, managed health care, etc.) for rank and file employees?
- We need to pay competitively to attract and keep top talent.
 - That is why we continue to grant increases to management and non-management employees alike.
 - In terms of changes, like managed health care, these affect all employees, including me.
 - Most of the changes affect everyone, and the Company will continue to make changes to remain competitive.

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8. Who is in the peer group in the performance graph in the Proxy Statement, and how were they selected?
- The names of the peer companies are listed on page 12 of the Proxy Statement, and include leading companies in our businesses as well as the foremost industrial companies in the United States.
9. Is a different peer group used for compensation purposes, and if so how is it determined?
- No. We use same peer group for comparative purposes for both compensation and performance evaluations. This peer group of companies is shown as the green line in the graph on page 12 of the Proxy Statement, where the names of the companies are also listed.
10. What percentage of total option grants was made to the top five most highly compensated officers as a group?
- (new) • Under the pay for performance evaluation required by the Plan, the five highest paid executives received 4.85% of the options awarded under the June 1992 grant.

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11. How will Philip Morris respond if there is a loss of the Company's tax deduction for compensation in excess of \$1 million (as has been proposed by previous legislation in Washington and was supported by President Clinton during his campaign)?

- (new) • Our current understanding is that this would apply only to top five executives who earn in excess of this amount, and then only to compensation that is not performance-based. Since a significant portion of our executive officers' compensation is performance-based, it would appear that the net cost of this change would have an immaterial impact on our tax provision.
- Nevertheless, there is an economic cost, and if this loss of deduction occurs, we will seriously evaluate the level, balance, and forms of pay for each affected executive.
 - We understand that the \$1 million pay cap would not include gains from stock options. As such, it would have no direct impact on the Company's stock option practices.
 - We do not support such legislation and believe that a \$1 million limit for pay is artificial. To get and keep the best top management, we must provide competitive, equitable total compensation - even if that means exceeding some artificial \$1 million limit.

12. What percentage of the CEO's assets is held in company stock?

- (new) • I have purchased(amount of stock)..... and I have a substantial interest in this company. It is a significant portion of my assets

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13. Who are the members of the Compensation Committee, and what are their qualifications for serving on such committee?

- The members of the Compensation Committee are Messrs. Brown, Douglas, Huntley, Murdoch and Reed.
- They have many qualifications, including the following:
 - (1) integrity,
 - (2) independence,
 - (3) extensive national and international business experience,
 - (4) knowledge of the goals of PM and how the performance-based compensation system helps the company reach these goals.

14. What about Compensation Committee interlocks?

- There are no interlocks. None of our directors sit on the compensation committees of other directors' companies.

Note: If a question is raised about Mr. Huntley's relationship with Hunton & Williams, the following is a suggested answer:

- Mr. Huntley has been a director for 17 years. He is extremely knowledgeable about the company, and we think it benefits the shareholders to have his advice and counsel. Also, Mr. Huntley is "of counsel" and not an active member of the law firm.

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15. Who is the Company's compensation consultant? How and why was that consultant retained, and what work does he do?

- The Company's compensation consultant is Hewitt Associates.
- The firm was chosen because it is one of the premier compensation specialists in the United States. Also, they have an excellent understanding of compensation matters overseas.
- The firm advises the Committee and Management on compensation trends nationally and internationally.

16. Does the Compensation Committee have an independent consultant?

- The Committee has not chosen to retain an independent consultant of its own. It does have the option to have its own direct access to Hewitt Associates, but to date it has not found this necessary.

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Supplementary Q&A's from Hewitt Associates

Comments on Mr. Miles' Large Stock Option Grant (see esp. last point)

1. What is the Company's ongoing practice in making such large awards to the CEO and other senior executives? What is the dilutive effect of such grants?
 - The January option grant consisted of 100,000 shares with an option price of \$76.75 (the market price at grant) and 400,000 shares with an option price of \$100 (a premium of \$23.25 per share - or 30% - over the market price at grant). The January grant was non-recurring and was in recognition of his taking on the full role of Chairman and CEO.
 - These awards were made so that his interests could be aligned with shareholders early on in his tenure, with a very significant focus on motivating the increase in the stock price and further enhancing shareholder value.
 - Mr. Miles received an option to purchase 75,000 shares with an exercise price of \$73.63 in June 1992. The grant occurred at the regular time that the Company awards stock options to eligible key employees.
 - Given the recent change in the Company's stock price, all of the options granted in 1992 currently have an exercise price that substantially exceeds the market price. **For Mr. Miles to receive any compensation from these stock option awards, the stock price would need to increase by nearly 60% (for the premium options, the stock price would need to increase by more than 115%).**

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Also, these options have at least nine years of remaining term and certainly permit a long-time motivation to improve the stock price. **Thus, Mr. Miles has a very significant personal interest in enhancing the stock price performance and shareholder value.**

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Stock Options for Mr. Murray

1. How was William Murray able to receive such a large sum of money through stock options?
 - During 1992, he exercised 406,000 options which, when valued at the market price of \$81.50, resulted in a taxable ("paper") gain to him of \$19,986,052.36. These options were granted to him over an eight-year period from 1984 to 1991. On an annual basis, this amounts to \$2.85 million per year. Over the same time period the market capitalization of PM increased by about 30% per year.
 - Stockholders who purchased shares at the same time would have earned a similar appreciation on their money.

2. Why did Mr. Murray exercise his stock options in one-year period (1992)?
 - While Mr. Murray did exercise options during 1992, he has not actually sold any of these shares. Instead he has held these shares, and in turn, significantly increased his ownership stake in the Company. Therefore he has a vested interest in enhancing the stock price and shareholder value which are the underlying purpose of these stock option awards.
 - Because he has held these shares, Mr. Murray did not actually realize the \$20 million gain. In fact, as a result of the recent decrease in the Company's stock price, Mr. Murray's "paper gain" from this exercise is now worth significantly less than the original \$20 million.

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Comments on Compensation for Mr. Mayer

1. Mr. Mayer has received significant increases in compensation during the past three years. It also appears that the size of his stock options granted in 1992 exceed even those awarded to Mr. Murray. Why?
 - Mr. Mayer's increases in salary over the past three years are directly reflective of his promotions and expanded responsibilities during that period.
 - At the beginning of that three-year period, Mr. Mayer was President of General Foods USA. He was promoted in April of 1991 and was named Chairman and CEO of Kraft General Foods North America. The salary paid in 1991 only reflected this promotion for a portion of that year. In contrast his salary in 1992 fully reflects his new position and responsibilities for the entire year.
 - For similar reasons, the size of Mr. Mayer's stock option award in 1992 recognized his fully taking on the role of Chairman and CEO of KGFNA. A portion of his 1992 stock options award is intended to be non-recurring in recognition of his promotions.
 - These options consequently are meant to encourage an increase in Mr. Mayer's ownership position, providing a significant linkage with shareholder value and organization-wide performance.

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Long-Term Incentive Plan

1. What was the basis for the award determination in the 1990 to 1992 program?
 - For the Tobacco/Beer and Corporate units, program considers actual performance against the five-year internal strategic plan.
 - Final award is determined by reviewing performance relative to strategic plan goals and the business unit's performance compared to a selected group of peer companies. This peer comparison is necessary for benchmark comparisons.

2. What is the basis for the award determination of the new 1993 to 1995 Long-Term Incentive Plan? How does it relate to Corporate performance?
 - The 1993 to 1995 Long-Term Incentive plan has been realigned from the current program, to a plan focused on individual operating unit achievements, with respect to certain pre-established measures. Most of these measures are quantitative in nature, and therefore it is readily apparent if the goal has been met.
 - For instance, the focus in Corporate is on income from operations, cash flow, earnings per share and revenue. These measures generally will foster a corresponding increase in shareholder value.

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Incentive Award Payments

1. Did PM accelerate to 1992 incentive payments that would normally have been paid in 1993, in anticipation of higher Federal tax rates this year?
 - We did not. The full year's results in 1992 were not known (for purposes of determining the amount of incentive payments) until after the close of the year.
 - Such an acceleration would create a significant inconsistency with the practice of payment of annual bonus, and would result in "doubling up" bonus payments in the same tax year.
 - A portion of the Company's long-term performance awards (for the three-year cycle ending in 1992) was paid prior to the close of 1992 to certain individuals. The decision to make a payment prior to 1993 was made because the potential tax impact for the individual participants would be material if an increase in individual tax rates occurred.
2. How many people are in the Long-Term Performance Award Plan and what could be the total payout?
 - There were 298 senior executives in the 1990 to 1992 Plan.
 - The target amount for 1990 to 1992 is \$64.5 million.

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Health
(Tobacco and Food)

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Tobacco

1. What can you tell us about the recent publicity surrounding the Council for Tobacco Research, the Special Projects Division, and the investigation into these by the U.S. Attorney for the Eastern District of New York?

- Don't commit on pending investigations*
planning, the
since the
exclusion of
the investigator
has been
decisional in the
past press,
score
say that
- *We think*
The investigation by the U.S. Attorney for the Eastern District of New York into the Council for Tobacco Research and Special Projects was sparked by New Jersey federal Judge H. Lee Sarokin's opinion, saying that the industry and its lawyers may have fraudulently misled the public about the health effects of cigarette smoking.
 - Judge Sarokin's opinion was reversed and he was removed from the case because he did not give the tobacco company defendants an opportunity to present their side of the story and because he appeared to be biased against the industry.
 - The issue of whether, during certain time periods, the industry fraudulently misled the public as to the health effects of cigarette smoking was tried to juries in both *Cipollone* (1988) and *Kueper* (1993). In both cases, the juries unanimously found no fraudulent misrepresentation on the part of the defendants.

(Above is summary answer. Detailed analysis, as previously provided, is on pages 2 - 5)

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Detailed Analysis of Question 1

- Shortly after Judge Sarokin issued his Opinion in the *Haines* case (February 6, 1992), in which he said there were documents which provided evidence that the industry and its lawyers may have intentionally misled the public about the health effects of cigarette smoking through the Council for Tobacco Research and the use of lawyer-directed Special Projects, the U.S. Attorney for the Eastern District of New York asked the CTR and the Tobacco Institute to turn over certain documents to that office for review. The U.S. Attorney subsequently interviewed some individuals with knowledge of CTR and Special Projects research.
- More recently, the U.S. Attorney also has asked Philip Morris and other cigarette manufacturers who are defendants in the *Haines* case, to turn over some documents relating to the Council and Special Projects.
- While I cannot make specific comments on the substance of the current investigation by the U.S. Attorney, I will comment on the recent *Wall Street Journal* article on these same topics, as well as on the Council for Tobacco Research and Special Projects.

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- First, the article contains numerous inaccuracies. Some are the result of interviews with disgruntled former industry or CTR employees, and others are the result of the industry's belief that it is improper to comment in the newspaper on issues that are currently the subject of litigation.
- Second, Judge Sarokin's decision was reversed by the Third Circuit Court of Appeals, in part because he did not afford the industry an opportunity to tell its side of the story on CTR and Special Projects. The Court also removed Judge Sarokin from the case, because he gave the appearance of being biased. In other words, we did not get a fair hearing before Judge Sarokin issued his Opinion.
- Third, the issue of whether, during certain time periods, the industry fraudulently misled the public as to the health effects of cigarette smoking was tried to juries in both *Cipollone* (1988) and, more recently, in the *Kueper* case (1993). In those cases, the juries unanimously found no fraudulent misrepresentations on the part of the defendants.
- I would like to give you some background on CTR and Special Projects. As a result of the earliest reports on the possible adverse health effects of cigarette smoking, the cigarette manufacturers and others involved in the tobacco industry, such as warehousemen and growers, formed the Tobacco Industry Research Committee, now called the Council for Tobacco Research. The industry contributes money to the CTR, and the CTR, in turn, funds research on tobacco and health, as well as the diseases which have been associated with smoking.

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The funding decisions are made by a distinguished Scientific Advisory Board (SAB) comprised of independent scientists. The industry has nothing to say about what research is funded. Each researcher is free to publish the results of that research. More than 95% of the CTR research has been co-sponsored by other organizations, such as The American Cancer Society, The National Cancer Institute, The National Institutes of Health, and The American Heart Association, as well as numerous other such organizations. Over the almost forty years the CTR has been in existence, the industry has contributed over \$200,000,000 to CTR sponsored research. This support has resulted in more than 1,200 original studies by over 800 scientists in more than 300 medical schools, hospitals, and research centers. There have been almost 4,500 scientific publications based on this research.

- In 1964, when the first Surgeon General's report was published, the cigarette manufacturers anticipated that there might be an increase in lawsuits filed against them. In addition, the manufacturers did not believe the scientific research supported the report's primary conclusion: that cigarette smoking was a proven cause of lung cancer. Therefore, litigation lawyers for the companies were asked by their clients to find and fund scientists who would be willing to conduct research which might be helpful in the litigation, or in testimony before Congress, or for publication in the scientific literature. These efforts were called CTR – Special Projects, because, for administrative purposes, the researchers were paid through the CTR. The independent SAB, however, had nothing to do with these projects.

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In fact, the scientists who received money for these Special Projects were aware of this, and were asked to acknowledge Special Projects grants in any publications to avoid confusion with the SAB-approved CTR grants. The Special Projects grantees were respected scientists, and free to publish the results of their research and, in fact, many did.

- The documents which are the subject of Judge Sarokin's Opinion, and which sparked the interest in the Eastern District, are communications among in-house and outside lawyers for the companies, evaluating and commenting, for their clients, on the legal implications of Special Projects research – just as attorneys do who are involved in litigation for other industries. They are not research documents.
- Finally, let's put all of this in some perspective. I doubt that there has been any scientific issue more widely discussed over the last forty years than that of smoking and health. Media coverage has been extensive, and I venture to say everyone has long been aware of the debate and of the alleged risks of smoking. The tobacco companies have participated properly in that debate.

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Smoking and Health

2. What kind of smoking and health research has Philip Morris done?

- Since 1954, Philip Morris has sponsored such research through the Council for Tobacco Research (CTR) to which the industry has contributed over \$200 million - almost half of which has come from Philip Morris.
- In addition, we have done such research in our own laboratories, as well as sponsored research through independent laboratories and universities.

(Examples, if necessary: Harvard, Duke, UCLA, and Case Western Reserve).

2A. Following question might conceivably be asked:

If Philip Morris is indicted in the matter of CTR, what will be the effect?

- We do not expect to be indicted.
- We do not speculate on a hypothetical outcome which we believe is not likely.

Health and ETS

3. Is smoking a health risk?

- PM acknowledges that smoking is a risk factor for certain human diseases and agrees that consumers should be aware of these alleged risks. But we believe consumers already are aware. Warning labels have been on cigarette packs for more than 25 years.

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4. What is PM's response to the EPA announcement calling second-hand smoke a Class A carcinogen?

- We believe the report is badly flawed and lacks credibility.
- A careful, unbiased look at the report shows that EPA used selective science. The agency included only data that support its own conclusions and ignored studies that do not.
- EPA conducted no original research, but reviewed 30 independent studies. Of these 30 studies, 24 showed no statistically significant increased risk of disease for non-smokers exposed to ETS.
- Studies cited by EPA on the relationship of ETS to lung cancer are mathematical or statistical calculations based on survey responses, and not clinical or laboratory research.
- A blatant omission from the EPA report was one of the largest and most recent studies ever conducted on ETS, commissioned by the National Cancer Institute, which reported no overall statistically significant association between ETS and lung cancer for nonsmokers exposed to tobacco in the home, the workplace or during childhood.
- EPA's credibility was called into question by a U.S. General Accounting Office report prepared for the incoming Clinton administration. It cited EPA for doing too little research on environmental pollutants, managing its data poorly and for failing to oversee government contractors properly.

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- The GAO report further cited EPA for financial mismanagement of the Superfund program that resulted in the loss to the government of hundreds of millions of dollars.
 - GAO had issued a similarly critical report in 1988 to incoming President Bush.
5. Given EPA's recent action classifying ETS as a Class A carcinogen, shouldn't PM halt or significantly reduce its cigarette production?
- No. We are committed to our domestic and worldwide tobacco business, and we will continue to point out the obvious flaws inherent in the EPA's report on ETS.
6. What is PM's position on smoking in restaurants, offices and other public places, in light of the EPA's risk assessment?
- Nearly one-third of ^{adult} Americans smoke, and we support the reasonable accommodation of smokers and non-smokers in public places and in the workplace.
 - We encourage smokers to be courteous and use common sense while smoking, and seek fairness from non-smokers.
 - Nearly 66% of respondents to a national survey favor accommodation of smokers and non-smokers in restaurants and other public places.

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7. What is PM's response to the claim by the EPA that exposure to ETS increases the risk of respiratory problems in children?
- A growing number of complaints of childhood respiratory problems are associated with poor indoor air quality in schools and day-care centers where ETS is not a factor.
 - It is not possible to determine whether environmental tobacco smoke or other agents are responsible for respiratory diseases in children.
 - Other factors, such as socioeconomic factors, exposure to contagion and indoor pollutants other than ETS have all been linked to respiratory illness in children.
 - Studies which EPA has relied on are inconclusive and inconsistent with at least 25 other independent studies that report no statistically significant association between respiratory disease in children and ETS.
8. What impact will the EPA announcement have on cigarette consumption and PM's tobacco business?
- We foresee more attempts to impose smoking restrictions and, therefore, fewer opportunities for adults who smoke to use our products
 - We will continue to encourage businesses, restaurants and other places where smokers and non-smokers gather in close proximity to adopt policies of accommodation of both smokers and non-smokers.

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9. Do you anticipate more liability suits as a result of the EPA statement?

- (new) • Certainly such lawsuits are possible, but so far no U.S. tobacco company has paid so much as a penny in damages as a result of any product liability claim.
- We expect we will prevail in all future product liability cases, just as we have in the past.

10. What is PM doing for its employees who are exposed to ETS in the workplace?

- We accommodate both smokers and non-smokers in our workplaces
- We provide individual smoking and non-smoking locations for those employees who request them.
- The maintenance of our ventilation systems meets or exceeds current HVAC standards as established by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE).

11. As a non-smoker sitting in the audience, am I at risk because of the cigarette smoke in this room?

- No, you are not at risk because the scientific evidence does not support a causal link between ETS exposure and disease.

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Food

12. What is Kraft doing about customers' health concerns?
- We are aggressively marketing a number of "Light" and Fat Free cheeses, lower in cholesterol and calories
 - We also market Light and Lower Fat versions of our key brands
13. Is Kraft worried about cholesterol in its cheese products?
- We continue to believe a healthy diet ought to include variety, balance and moderation
 - The new FDA "Food Pyramid" includes dairy/cheese products as part of a balanced diet

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Human Resources

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HUMAN RESOURCES

Current Problems

1. I read that Philip Morris Richmond was laying off 10,500 employees. Is it true that you are cutting that many tobacco jobs?
 - No. On February 1, we announced a special early retirement program for members of Local 203T of the Bakery, Confectionery and Tobacco Workers International Union. The program was sanctioned by union officials and affected a maximum of 545 people.
 - In an AP story about the program, a reporter erroneously said that PM was laying off 10,500 people. What he should have said is that 10,500 people are employed in Richmond. The story ran on the national AP wire service and was therefore picked up across the country. A retraction was printed on AP news wire on February 4.
 - Program ended February 19 and was accepted by 471 people. Purpose of program was to balance employment needs with our increased productivity initiatives.

2. How many people were laid off in 1992?
 - During 1992 we have taken steps to re-align our work force throughout the country and in all our companies.
 - A total of 6,168 employees have been affected by a number of factors such as early retirement programs, plant closings, resignations, attrition, and restructuring of operations.

3. How were these employees treated?
 - Approximately 15% were offered early retirement.
 - All others given severance pay and outplacement support.
 - We have an extensive program to assist laid off employees when facilities are closed.

4. Is this fair to long service employees?
 - Early retirement program was voluntary.
 - Plant closings affected wide range of employees. There was no specific impact on employees with longer length of service.
- (new) • Many severance programs are keyed to length of service, but in some instances (e.g. reduction in force) they are not.

5. Any plans for further facility closures? Any more layoffs coming?
 - No plans for further facilities closures have been announced.
 - However, future closures are possible.

6. What is PM doing to prevent discrimination against smokers?
 - We support legislation to prohibit employment discrimination against people who smoke off the job.

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Affirmative Action

7. To what extent has the Company's Diversity Management policy resulted in significant improvement in the hiring and promotion of minorities and women? What measures have been taken to ensure that this policy is implemented?

- At the end of 1992, women and people of color represented 10,873 (38.3%) of our domestic exempt work force (28,387). This compares favorably to year-end 1991 in which women and people of color represented 37.5%.
- At year-end, women and people of color represented 44,021 (47.5%) of the total domestic work force (92,745). At year-end 1991, women and people of color represented 47.3% of the total domestic work force.
(See attached chart)
- Today, we have four women and four minority men elected corporate officers:

Women

Dede Bartlett, VP & Corp. Secretary, PM Cos. Inc.
Kathleen Linehan, VP Washington, PM Cos. Inc.
Katherine Wickham, VP & Controller, PM Cos. Inc.
Diane McAdams, Assistant Secretary, PM Cos. Inc.

Minorities

George Lewis, VP & Treasurer, PM Cos. Inc.
Alfonso Carney, Jr., Sr. Asst. Gen'l Counsel & Asst. Secretary, PM Cos. Inc.
Carlos Salguero, President, PM Latin America, PM Int'l
Dinyar Devitre, Chairman & CEO, PMKK Japan, PM Int'l

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PHILIP MORRIS COMPANIES INC.
WORLDWIDE OFFICERS AND EXECUTIVES
 (AS OF 12/31/92)

	<u>TOTAL</u>	<u>WOMEN</u>		<u>MINORITIES</u>	
	#	#	%	#	%
18+	372	24	(6.5)	30	(8.1)
23+	46	1	(2.1)	3	(6.5)
BOARD OF DIRECTORS	19	2	(10.5)	2	(10.5)

DOMESTIC OFFICERS AND EXECUTIVES

	<u>TOTAL</u>	<u>WOMEN</u>		<u>MINORITIES</u>	
	#	#	%	#	%
18+	274	24	(8.8)	20	(7.3)
23+	39	1	(2.6)	1	(2.6)

Note: Officers are grades 18+, including officers in the annual report
 Officers/Sr. Management are grades 23+

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In addition, the following are the appointed PM Corporate officers:

Women

Rosemary Ripley
Stephanie French
Nancy DeLisi
Denise Keane

Minority

George Knox

- Our progress is directed by a senior level Affirmative Action & Diversity Committee that includes the heads of all our operating companies. Progress in all of our business operations is monitored closely by a Diversity Council comprised of HR representatives from each operating unit.
 - During 1992, the Chairman's Diversity Award was created to recognize the operating unit with the best diversity practices and results. The first award will be presented at the June 30th Chairman's Award Dinner.
 - In addition, at the PM Corporate level the Diversity function was combined with the Management Development function to facilitate the collaboration and linkage to key human resources systems and processes, such as succession planning and executive development.
8. What is the representation of women and minorities at Kraft General Foods?
- Women are 32.6% of the workforce
 - Minorities are 22.7% of the workforce

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9. What percentage of the current Corporate Office employees are women?
What percentage are minorities?

- 44% are women (1013 of 2301)
- 22.6% are minorities (519 of 2301)
- Of Professional and managerial staff at Corporate Headquarters, 35.8% are women and 16.6% are minorities.

10. Is the company (US) gaining in the number of women and minorities in top jobs?

- Yes. Defining "top" jobs as officials, managers and professionals, clear trend of increasing representation by women and minorities

	<u>%Women</u>	<u>% Minorities</u>
1992	28.8	12.8
1991	26.9	11.8
1990	24.9	10.3
1989	24.7	10.1

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Business with Minority Groups

11. To what extent does the Company do business with minority vendors or businesses owned by women?
- The Company transacts a significant amount of business with these groups. In 1992, the Company expended over \$314 million for minority vendors and over \$72 million for businesses owned by women.
12. To what extent does the Company do business with banks owned by minority groups?
- The Company has done business with minority banks for more than 25 years. Today we have relationships with approximately 73 minority (6 female) owned banks and have total lines of credit in excess of \$45 million with such banks.
- 12A. We understand that some contracts with minority vendors have been cancelled. Is Philip Morris abrogating its prior commitment of support to minority contractors in Richmond?
- Absolutely not. Recently, executives of the company have met with representatives of the minority contractors' organization here in Richmond. They have reconfirmed their support of minority vendors. However, as was pointed out at that meeting, the company's overall use of outside contractors has diminished in recent months. This has affected majority as well as minority vendors.
 - I can assure you that we are continually monitoring this situation and that there will be no disproportionate impact on minority vendors.

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AIDS Questions

13. What is the Company's policy with respect to employees with AIDS?
- As long as the individual is able to work and perform normal job duties, he/she is treated like any other employee. In all cases, the privacy of the individual is protected.
 - Unless the illness is disclosed by the individual, co-workers would be unaware of the situation. When unable to work, the individual would enter a medical leave station and, again, would be treated the same as any other employee who is unable to work due to an illness or accident
14. Are applicants for employment tested for HIV/AIDS?
- No AIDS testing of employees or as part of general pre-employment work place physical exams.
 - Present scientific evidence indicates it is not necessary from a work place or product safety perspective.
 - Illegal to take adverse employment action on basis of AIDS test.
15. Do you have an AIDS education program for employees?
- We have made educational information and counseling available to employees.

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16. What is KGF's position on employees with AIDS in food plants?
- Unaware of any individual cases within KGF.
 - Incidents of AIDS will be handled on a case-by-case basis. Will be sensitive and responsive to the individual needs of the employee.
 - The Centers for Disease Control in Atlanta and other medical authorities have clearly determined that AIDS is non-contagious in normal social contact associated with employment.
17. What assurances can you give consumers that KGF products are safe from contamination by an employee with AIDS?
- Adhere to strictest quality control in every aspect of operations.
 - No employees generally come in contact with food prior to packaging
 - Medical research strongly indicates AIDS is not transmittable through food
 - KGF procedures are consistent with food industry guidelines set by CDC, FDA and USDA
18. Would KGF allow an employee with AIDS to remain in a job in which he or she handled food?
- No employees generally come in contact with food prior to packaging.
 - Our policy does not require the employee to transfer.
 - Based on existing medical evidence, AIDS is not transmittable through food.
 - Policy is consistent with food industry guidelines set by CDC, FDA and USDA

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Labeling

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Drugs

19. What is your policy on drug and alcohol abuse?

- We have a clear policy which prohibits reporting for work under the influence of either drugs or alcohol, or using either substance while at work.
- Recognize that drug and alcohol abuse can be a medical, as well as a psychological, problem. We provide our employees with benefits and programs to assist in treatment and rehabilitation.

20. Do you test for drugs?

- Program provides for testing under three dcircumstances:
 - (a) all new employees
 - (b) employees involved in serious work-related accidents
 - (c) random test legally mandated and certain safety-sensitive jobs.

Harassment

21. Does the Company have a policy on sexual harassment in the workplace?

- The Company has a written policy, reissued annually by the Chairman, prohibiting harassment of any kind.

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- We monitor compliance through the Human Resources organization, attitude surveys, focus groups, and employee groups that assist us in our Work Force Diversity efforts.
- (new) • The new "hot line" directs attention to matters where there is "disregard of compliance procedures such that the Company could be exposed to liability." While not specifically designed to deal with the issue of harassment, the line has in fact been used to report this on a couple of occasions.

General

23. Are potential successors to Messrs. Miles, Murray, Storr available and ready?
- In a company the size of ours, it is vitally important to identify candidates who are ready replacements.
 - We always have a cadre of people identified as possible successors to any position in the company.
24. What steps are you taking with respect to management development?
- Identified candidates with top potential, internally and outside.
 - Created development opportunities and used job assignment as a principal way of growing and seasoning executives.
 - Increased our investment in development programs in many key businesses.
 - Direct senior management's focus and attention to management development.

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- Completing a Management Development System across the organization by
 - extending our best practices in development training and placement to all our businesses
 - growing synergies in College Relations, Recruiting, Performance Management and Development Programs.

25. I understand there have been errors in retirement calculations connected with the Voluntary Separation Program. Has this matter been settled?

- (new) • Yes. Calculations have been redone and communicated to all the individuals concerned. To our knowledge, the matter has been settled to everyone's satisfaction.

NOTE: This might be brought up by one individual, and this is confidential background:

In March, PM USA became aware of errors in about a dozen retirement calculation estimates for participants in the recent Voluntary Separation Program (VSP). Errors were attributable to an actuarial consultant.

A decision was made to offer individuals whose retirement estimates had been grossly overstated an opportunity to return to employment on April 1st, or alternatively to receive a transition payment. Of the 12 individuals contacted all will retire except one who will return to work.

Calculations were redone for all individuals who declined the VSP. In two cases, retirement estimates provided to the employee were lower and two individuals

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were offered an opportunity to take the VSP with corrected retirement estimates. One of these individuals accepted the VSP.

As a result of the acceptances and declinations of the VSP, the same number of persons electing the program initially actually retired.

Only one individual appeared upset, and this is to alert you to the matter.

26. How have PM employees responded to new Managed Care benefit?

- Response in Richmond has been very positive. The system has just been introduced in New York, so it's still too early to gauge employee reaction.

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27. Does the new Managed Care benefit really cut costs for the Company? Even though it lowers the cost of physicians' charges, doesn't the plan encourage over-use of specialists who have no incentive to give cost-effective care?

NOTE: This question might be brought up by Mr. J. Pinsky

- (new) • We believe that managed care is an effective way to control health care costs without reducing the quality of care. We consider this a more effective approach than shifting costs to employees, an approach used by many other employers. Cost shifting does not directly address the cause of rapidly escalating costs.
- Most (95%) specialists are not capitated, but are paid on a discounted maximum fee schedule. CIGNA has pre-authorization procedures for surgical care, and will not authorize care in a more costly setting. Specialists routinely perform simple surgical procedures in their offices.
 - CIGNA has a full representation of all specialties in their network. They currently contract with 40% of the specialists and 80% of the OB/GYNs in Richmond.
 - Every effort has been made to include in the network as many physicians as possible used by our employees. Network development is a continuous process. As physicians leave the network and membership grows, physicians are added as needed in various parts of the network.

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28. What is the company's position on the death last July 9 of George Barger, a PM USA supervisor, in the finished goods warehouse?

- We as a company, and I personally, remain deeply saddened by the death of our employee. We believe that any accident of any kind is one too many and must be viewed as a failure of the system.
- It is thought, in the absence of any witnesses, that Mr. Barger was caught between the stacker crane and the stacker storage bins, causing fatal injuries. Without question, the accident occurred because of a failure in the system. It could have and should have been prevented.
- PM USA investigated the accident immediately with the cooperation of Virginia Occupational Safety and Health (VOSH).
- VOSH cited PM USA for failing to meet certain safety standards, and steps have been taken to improve safety in work areas, and instituting procedures to prevent this type of accident.

[A full account of this accident can be found at the end of this section]

29. Does Philip Morris have smoking and non-smoking areas at its headquarters?

- At headquarters we observe an accommodation policy for smokers and non-smokers.
- Only the elevators are non-smoking areas.

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30. Two major labor contracts at Oscar Mayer were due for renegotiation in April and September last year. How did they go?

- Labor agreements with the UFCW in Madison, Wisc. and Davenport, Iowa covering approx. 3000 employees were resolved on a timely basis, within approved guidelines.

31. Do you have company-owned or leased properties?

- Philip Morris Companies Inc. owns a condominium in New York and has leased two apartments in London.
- KGF owns a condominium in Glenview, IL.
- In all cases these properties are used for relocation and short-term business stays. Any personal usage is billed back to the employee, in accordance with IRS guidelines.
- Usage is closely monitored and audited by our corporate auditors.

32. Does the Company have any vacation properties?

- Oscar Mayer owns two houses, in Florida and California.
- Used for employee incentive trips, which is properly included in the employee's compensation in accordance with IRS guidelines.
- Usage is closely monitored by Oscar Mayer and audited by our corporate auditors.

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**Annual Meeting questions and answers for Michael A. Miles
PM USA**

Employee Death in Finished Goods Warehouse

1. What is the company's position on the death last July 9 of George Barger, a Philip Morris USA Supervisor, in the finished goods warehouse?

A. o We as a company and I personally remain deeply saddened by the death of our employee. We believe that any accident of any kind is one too many and must be viewed as a failure of the system.

o We are committed to assuring that our work practices and our workplace environment meet the highest safety standards possible.

o Philip Morris USA cooperated fully with Virginia Occupational Safety and Health (VOSH) throughout the investigation of the accident. PM USA also conducted its own investigation.

o We have since taken steps to improve safety in the finished goods warehouse and other work areas, instituting procedures and rules designed to prevent an accident like this from happening again.

2. What were the results of the VOSH investigation? In VOSH's view, what caused the accident?

A. o According to VOSH, Mr. Barger entered aisle seven of the finished goods warehouse on July 9 and was caught between the stacker crane and the stacker storage bins causing fatal injuries.

o On January 4, 1993, after investigating the accident for six months, VOSH cited Philip Morris USA for one serious violation and a fine of \$35,000.

o In essence, VOSH cited PMUSA for failing to meet certain safety standards for ensuring that the stacker crane was turned off and stayed turned off (de-energized) when employees performed work related activities in the aisles where the stacker crane operated. Work related activities include cleaning up spills, inspecting bins to confirm or validate computer data reflecting inventory status.

3. What were the findings of PMUSA's investigation? What happened? How /why did the accident occur?

A. o PMUSA began its investigation of the accident immediately after it occurred. The investigation was headed up by Steve Parrish, PMUSA's general counsel and senior vice president, external affairs, and involved people from shipping, distribution, maintenance and safety. Parrish was assisted in the investigation by the former acting director of OSHA.

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o PMUSA also asked the National Loss Control Service Construction Corporation (NATLSCO), a nationally known safety engineering firm, to provide a technical and independent reconstruction of the accident.

o The investigative team was charged with making three basic findings. (1) establish the facts about what happened the day of the accident; (2) determine what is believed to have occurred given that no one will ever know for certain because no one witnessed the accident, and (3) what workplace procedures contributed to the accident and what changes should be implemented to prevent similar accidents from occurring again.

o The facts are as follows. The finished goods warehouse is where PMUSA stores its finished product prior to distribution. The product is stored on pallets that are kept in multi-story bins which line the aisles of the warehouse. The stacker crane moves up and down these aisles stacking or removing pallets from the bins.

o (1) On July 9, Mr. Barger was combining partially filled pallets of cigarettes. At about 11:55 AM, a co-worker noticed that Mr. Barger was away from his desk and that his lunch was left uneaten. Knowing that Mr. Barger usually ate his lunch at 11:45, the colleague went looking for Mr. Barger in the warehouse and discovered his body in aisle number seven. At 12:05, our Emergency Response Team called 911. At 12:20, the rescue squad arrived. At 1:20, PMUSA notified VOSH, members of which arrived at 2:00 PM and stayed until 6:00 PM. VOSH returned to the finished goods warehouse on at least three other occasions. Those are the facts that are known to be true.

o (2) PMUSA's investigative team and NATLSCO separately and independently concluded that at approximately 11:35 AM, Mr. Barger entered aisle seven of the finished goods warehouse to validate the contents/count of one of several bins; he decided to check because data from his computer indicated a different pallet count than he expected; the stacker crane was positioned in front of the bin in question, obstructing Mr. Barger's view; Mr. Barger then stepped onto the crane to get a better view; the crane activated; Mr. Barger was thrown from the crane and was caught between the bins and the stacker crane as it moved along the aisle, causing fatal injuries.

o (3) Without question, the accident occurred because of a failure in the system. It could have and should have been prevented. PMUSA has already instituted changes in the system to prevent an accident like this from happening again. These changes include reducing access by employees to the stacker crane area; implementing a buddy system when employees are in the aisles, better communications about safety procedures in the warehouse and making sure they are followed; communications with the stacker crane's command station by employees when they are in the aisles.

4. What is the significance of the 1988 audit report that was found during the investigation?

A. o The audit report was turned over to VOSH immediately after it was found on July 29.

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LABELING

Tobacco products

1. Why aren't there any warning labels on cigarette packs sold overseas?
 - There are now, since in 1992 PM decided to place U.S. Surgeon General's health warning on all cigarette packs worldwide, even if not required by local laws. This is now fully implemented.
 - (new) • Note: (1) Exceptions may exist due to the use of old inventory that will be replaced by new product with labels.
(2) The Moroccan government has rejected our request to sell labelled product pending promulgation of a local label.
2. Why doesn't PM also put health warnings on all promotional/advertising materials?
 - We believe that awareness of health issues connected with smoking already exists throughout the world.
 - We support reasonable proposals for inclusion of a "caution notice" in our advertising, but believe this should be agreed on a market-by-market basis with government and other members of industry.
 - See the Company's position statement in 1993 Proxy Statement.

Food products

3. What is KGF's position on the new Nutrition Labeling Law?
 - We are in favor of mandatory nutritional labeling. KGF supported original legislation and filed comments.
 - Changing every one of our labels to comply with the new regulations will require massive effort, and involve considerable expense, but we are confident we can meet the May 1994 deadline.

4. Why don't products have the new labels on them right now?
 - It will take us several months to review the new regulations, develop nutritional profiles, design and print new labels.
 - We will be in compliance by May 1994, the date when the new regulations are to go into effect.
5. What's the earliest that KGF products with the new label will appear in stores?
 - We can't predict at this time.
6. Now that product is "mislabeled" according to the new regulations, doesn't that mean you are deceiving customers?
 - No, absolutely not. All our products comply fully with current regulations. Once the new regulations go into effect, they will comply with those.
7. What can consumers expect now that the new labeling requirements are out?
 - Changes in the labeling of virtually every food product.
 - Additional nutritional information to be included in the new labels.
8. Why don't some of your products have nutrition labeling yet?
 - Current regulations mandate nutritional labeling only if product was fortified or if nutrition claims were made for a product.

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9. What will be KGF's role in educating consumers about new labels?
- Last year, KGF introduced a nutrition education campaign called "A Matter of Balance" with brochures for consumers, as well as newsletters and videos for dietitians to share with their clients/consumers.
 - Information about new labels will be included in this program.
 - Customers can call our 800 numbers.
10. How much will it cost to comply with the new regulations?
- Our tentative estimate is several million dollars.
11. Do you anticipate there will be pressure to strengthen the EC Directive on labeling, based on the new labeling requirements in the U.S.?
- Situation in the EC is not different from other countries, but it is more complex to harmonize 12 different sets of labeling requirements.
12. When will Oscar Mayer nutritionally label its products?
- The new nutritional labels should appear on many meat and poultry products by April 1993.
 - All products will carry nutritional information by July 1994.

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Beer

13. What is your position on alcohol content labeling?
- Listing of alcohol content on beer containers has not been allowed by law since the end of Prohibition. The concern then and now is that marketing would focus on alcohol strength rather than quality, freshness and taste.
 - Coors prevailed recently in a case in which it argued for allowing the listing of alcoholic content on beer labels. Precise implications of this await an "implementing" ruling from the Bureau of Alcohol, Tobacco and Firearms.
 - There should be a national law rather than 50 different state laws.
14. If Anheuser is planning to disclose the alcohol content of its beer, what's your objection to doing the same?
- We prefer to wait until we know for certain that this move is permanent and nationwide. Coors is also adopting this attitude.
 - We also need to work out the cost of new labels.
 - We are always ready to re-assess this whole question, if necessary.

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Legislation

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LEGISLATION

Tobacco

1. What is the prospect for enactment of legislation to place tobacco products under jurisdiction of FDA or CPSC (Consumer Product Safety Commission)?
 - Prospect is unlikely. Jurisdiction over various activities of tobacco industry is already distributed between Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury, and the Agriculture Dept.
2. Will Congress pass product liability reform legislation?
 - This matter has been considered by Congress for over ten years, but no bill has been passed. We do not expect major changes in federal policy in 1993.
 - Prospects for reasonable, balanced tort reform legislation much better at state level
3. What is PM's position on tort reform, and how are we trying to impact legislative decisions?
 - Liability doctrines should be fair and reasonable to consumers and to manufacturers.
 - Current unpredictability of US legal system increases consumer costs, stifles competition, inhibits innovation.
 - We participate in national and state tort reform coalitions, such as the American Tort Reform Association.

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4. Why did Philip Morris advocate passage of legislation in Texas to exempt tobacco companies from product liability lawsuits?

- We believe federal and state product liability laws should be fair and balanced for both consumers and business interests. The Texas law meets that test.
- In addition, the provisions of SB 4 dealing with tobacco are comparable to the laws in 16 other states, and is a codification of the existing common law in Texas.

Food

5. What is KGF's position on legislation that would give additional enforcement authority to the FDA?

- Additional enforcement is unnecessary. Existing powers and enforcement mechanism effectively ensure industry compliance
- Mechanisms include threat of adverse publicity, judicially enforced sanctions, and strict criminal liability.

6. What about food industry user fees for the FDA?

- More realistic budgeting and greater federal funding commitment needed to improve agency's operations, not ill-conceived user fee schemes.

7. What is KGF's position on "food safety" legislation that seeks to ban or severely limit the use of pesticides in the production of food?
- KGF complies with all applicable laws and regulations governing public health and safety.
 - Company does not support the zero-tolerance of the "Delaney Clause" which is based on antiquated notions of food safety, given modern scientific capabilities that can detect chemicals at very low levels that may pose only negligible public health risk or no risk at all.
 - We welcome the recent statement by the EPA that the time may have come to review this matter.
8. Why did PM oppose the Proposition 65 initiative in Ohio?
- Placing unwarranted health warnings on food misleads consumers into believing that safe products pose a health risk.
 - Unnecessary warnings do not serve public interest, and the public rejected initiative by 78-22%.
9. What is PM's position on "downsizing" or "package shorting" legislation?
- Downsizing legislation would require manufacturers to place a notice on a package or shelf if the contents of a product have been reduced, but the package has remained the same.
 - PM believes that grocery products are accurately labeled as to weight, serving size and price, and that downsizing legislation is unnecessary.

10. Why did PM oppose the "recycling" initiative in Massachusetts?
- Proposal would have required us to meet packaging standards which were unrealistic from safety point of view.
 - Voters rejected initiative by 59-41%.
11. Do we anticipate more proposals of this type in 1993?
- Yes. State affiliates of the PIRG (Public Interest Research Group), an advocacy group led by Ralph Nader, are expected to push legislation similar to the Mass. initiative in numerous states in 1993.
12. What is your position regarding the threshold Blood Alcohol Content (BAC) level in drunk driving laws?
- Most states have a BAC level of .10 because science has demonstrated that most people are impaired at that level.
 - Average drunk driver has a BAC level of .17.
 - Several states have lowered the level to .08, but no evidence of less drunk driving.
 - To make more people "legally" drunk by lowering BAC is not realistic answer from law enforcement point of view.

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Litigation

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LITIGATION

1. Is there a danger that an adverse outcome of the smoking and health litigation against the tobacco company will affect the other operations of Philip Morris Companies?
 - The Company altered its corporate structure in 1985 to reflect more accurately the breadth of its geographic operations and business diversification.
 - The operating companies now exist as first tier subsidiaries of the parent company. Each is operated separately, reporting its financial results to the parent.
 - The Company's tobacco subsidiary, Philip Morris Incorporated, believes, and has been so advised by counsel, that it has a number of valid defenses to the smoking and health cases including, but not limited to, the defenses based upon preemption as settled in 1992 by the United States Supreme Court. PM Inc. will continue vigorously to defend all such cases.
 - Admittedly, it is not possible to predict the outcome of this or any litigation.
 - Management believes, however, that the outcome of pending litigation, no matter what those outcomes may be, will not have a material adverse financial impact upon Philip Morris Incorporated, nor upon the other operating companies of Philip Morris Companies Inc.

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2. What is the Seinfeld case?

- This action, brought in New York Supreme Court on April 7, 1992, challenged an award of executive compensation granted by Philip Morris to Hamish Maxwell in 1991. [In that year he received options on 500,000 shares at \$59.71 and 150,000 shares of restricted stock (vesting in 1996)]. Plaintiff's contention was that the awards were made in September at the time of Mr. Maxwell's retirement and were unlawful, wasteful and gifts of corporate assets improperly authorized by the Board.

(new)• A New York State Supreme Court Judge has now entered an order dismissing the *Seinfeld* case, on the ground that the State of Virginia is the more appropriate forum for this litigation. At this point, the plaintiff has three options:

- He may appeal the court's order to an appellate court, but he may be reluctant to do so since the precedent relied on by the lower court was a prior decision by the appellate court.
- He may refile the case in Virginia, which would be a better jurisdiction for us because of recent changes in the Virginia Corporation Statute.
- Or, he may drop the case entirely.

In any event, he is pretty much back to "square one" at this point.

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3. What is the status of the Roger de la Burde murder case?

- According to newspaper accounts, Beverly Monroe was convicted by a Richmond jury in early November for the murder of Roger de la Burde and was sentenced on 22nd December to 22 years in prison.

Further details:

a) Who were Roger de la Burde and Beverly Monroe? What was/is their relationship to PM? What was their relationship to each other?

- Mr. de la Burde worked as a scientist for Philip Morris USA in its R&D department in Richmond from 1961 until 1987 when he took early retirement.
- Beverly Monroe worked for PM in Richmond as a legal assistant from 1979 until (her conviction) November, 1992.
- Local Richmond media reported they had a close personal relationship. What we know is what we read in the papers.

b) What happened to Roger de la Burde's lawsuit against Philip Morris?

- Mr. Burde claimed he was wrongfully discharged from his job and that he was owed royalties from a Philip Morris patent.
- The fact is, Mr. Burde accepted early retirement in 1987.
- Philip Morris employees assign patent rights to the company as a condition of employment.
- Overall, we view/viewed his claims to be false and without any merit.
- The case is still pending as of (date). We don't comment on pending litigation.

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- c) Why did PM file a counterclaim?
- We contend that Mr. Burde's complaint constituted abusive litigation under Georgia law.
- d) Court records indicate Mr. Burde had in his possession certain papers and records. What were they?
- We believe he had certain papers which were either stolen from the Company or fabricated, but Company officials have not actually seen all documents.
- e) What about the documents he threatened to release saying they would hurt our position in smoking and health litigation?
- We can't confirm something we haven't fully seen.
 - We believe some documents are from public documents taken from Cipollone litigation.
 - * Given Burde's lack of credibility, one would have seriously to question any documents he had, particularly those he may have fabricated or altered.

2045757913

CONFIDENTIAL

4. Late last year you terminated Allene Roberts, a black woman who had 25 years with the Company, building successfully a good reputation for Philip Morris with minority constituencies all over this country. We understand that she was asked to leave and was escorted from the building. Is this an example of the company's commitment to diversity for long term minority employees?
- [Allene Roberts was a Manager of Public Programs in the Corporate Affairs Department and a 25 year employee. She was terminated in November, 1992. In December, she sued the Company alleging race and sex discrimination and defamation of character].
 - No. This matter relates only to one former employee, Mrs. Roberts, and in no way affects Philip Morris' total commitment to diversity within its workforce.
 - Regrettably, Mrs. Roberts was let go after a general audit of her department which focused partially on the activities and practices of the people in that department. Questions were raised about her activities and practices. Specifically, those questions related to violations of expenses and contracting policies to which all our employees, with 25 days or 25 years of tenure, must adhere.
 - It was in consideration of her 25 years of dedicated service that she was given months to resolve the questions. In the end, Mrs. Roberts' positive accomplishments could not be permitted to offset apparent misconduct which was discovered in the audit and which was discussed with her in great detail before the action was taken.

- continued on next page -

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- We are well aware that over the years while she worked for Philip Morris, Allene Roberts made many friends for this Company. She did so by representing accurately to the community Philip Morris' commitment to social and economic justice. We hope that whatever the outcome of the litigation with Mrs. Roberts, those friendships based on that commitment can endure.

GENERAL

5. Do you expect liability suits because of secondhand smoke?
 - While there are a few lawsuits, the prospect for a plaintiff to be successful remains extremely remote because the scientific evidence does not support their claims.
6. How many smoking and health product liability suits are pending against Philip Morris? Against the cigarette industry?
 - As of March 1st, 27 suits pending against PM and 55 against industry.
7. What legal defenses has Philip Morris asserted in response to existing smoking and health product liability suits?
 - (a) Federal preemption;
 - (b) general causation -- does smoking cause disease;
 - (c) specific causation -- did smoking cause this plaintiff's disease; and
 - (d) contributory fault; did the plaintiff smoke while aware of the claimed health effects of cigarette smoking.

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8. Have adequate reserves been established to reduce the financial risks associated with pending and future smoking and health product liability suits?
- Because of our success in defending these suits, we do not presently believe that the pending suits will have a material adverse effect upon the financial condition of the Company and, accordingly, have established no reserves for potential adverse outcomes. We are constantly reviewing our reserve requirements, and will take action if and when it becomes appropriate.
9. How many asbestos cases are pending in which cigarette manufacturers have been named defendants? Will those cases be more difficult for Philip Morris to win?
- There are four lawsuits pending against cigarette manufacturers in which asbestos companies are also defendants. Philip Morris is a defendant in one case, the Pitre case, in Louisiana. The issues in these cases are substantially similar to those against the cigarette manufacturers only, and therefore, while the outcomes are not certain, we believe we will win these cases also.
10. What is the status of the Nabisco Ready-to Eat Cereals anti-trust suit in New York?
- The suit is still pending, but we consider it is unjustified.
 - We consider that the transaction is closed, and are proceeding with plans to integrate the business into our operations.

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11. What is happening about Joe Aliotto's threat to file an anti-trust suit concerning our beer operations?

(new) • We prevailed for a motion for a preliminary injunction. The Molson transaction is now completed. The suit is without merit.

12. If Mr. Deskiewicz wins his suit against Philip Morris, won't this lead to many other suits of this nature? [This is the small claims action in Washington].

- We do not think he will win. Juries so far have not agreed that smoking is addictive.
- We consider this to be a frivolous case which flies in the face of common sense.

13. What is the position with respect to employees of the plant at Decatur, GA retaining counsel to try to keep the plant open?

- (new) • Through informal contacts we have been informed that employees have approached (not retained) counsel, but we have received no communication from any one.
- We understand that the employees are seeking an increase in out-placement benefits, rather than keeping the plant open.
 - We believe that the employees have been given a good benefits package, including eight months' notification of the plant closure instead of the 60 days mandatory time.
 - The plant is still in operation at this time, but is scheduled for closure on June 26, when a gradual phase-out of the operation will start, with August 26 as final closure date.

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Lobbying

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LOBBYING

1. PM has been accused of using substantial corporate money to defeat smoking and health legislation at the state and federal levels. Aren't the public and shareholders entitled to know how much PM is spending to attempt to influence public policy?
 - Philip Morris complies with all required disclosures for lobbying expenses. If the law is changed, we will of course comply with those changes.
- (new) • **[Confidential:** Anti-smoking activists use lobbying expenditure questions in an attempt to find out not only what the Company spends in support of its legislative initiatives, but also to ascertain level of support of charitable organizations which may decide in turn to support the Company].
 - Many antis argue that soft money contributions should be included in total lobbying expenditures.
 - We were successful in avoiding shareholder proposal on this topic this year.

Miscellaneous Issues

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MISCELLANEOUS ISSUES

To date nothing under Miscellaneous. We will try to keep it that way

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Public Relations

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PUBLIC RELATIONS

1. Why is PM not more aggressive in defending itself from adverse publicity?
 - In some cases we decided not to comment simply to keep the story from having additional life or making it into more of a story.
 - In those cases, however, there have been behind- the- scenes activities with various publications and broadcast outlets, such as the recent meeting with Peter Kann, publisher of The Wall Street Journal, to discuss what we consider unfair and unbalanced reporting over the last eighteen months. Other examples:
 - We released our EPS numbers for 1992 slightly ahead of the earnings release to counter some negative coverage in the WSJ
 - We countered a great deal of the negative fallout of the EPA/ETS announcement by conducting our own press briefing a day before their conference, and made two of our senior executives available for interviews the next day.
 - We decided to cooperate on a Business Week story to balance out what could have been a more negative piece.
2. Is there anything we can do about the antagonism of the media towards our industry?
 - Not much except try to maintain relations with the media and tell our side of the story.
 - The media always emphasize negative news and we do not have any real control over them. Luckily we do have control over our own Company and we keep trying to give them the facts.

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3. Were the statements aired in the *Prime Time Live* program accurate? Has Philip Morris concealed information from consumers?

- We can't comment on matters pertaining to R.J. Reynolds. But, based on our information, much of the material presented in the program was inaccurate.
- We consider that many of the so-called facts aired in the program were a distortion of the truth. We so advised the producers ahead of the time of the show, but obviously made no impression.
- You might want to bear in mind that in the *Cipollone* and *Kuyper* cases, the jury found there was no basis for the allegations of concealment brought against the industry.

4. What influence does PM have on matters of public policy or social issues?

- Responsible companies, such as ours, should make themselves heard on public policy issues. But even though we should and do communicate our points of view, no one should think that we control the results. Our voice is only one of many.
- Above all, we should emphasize the importance of responsibility. In general, we all need to act with less emotion, and to show concern for other points of view as well as our own.

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5. What benefit will Philip Morris derive from hiring Lady Thatcher?
 - Lady Thatcher has extensive expertise and knowledge about geopolitical issues in many of the countries in which we currently do business, or hope to do business. She is a consultant with us on these and other matters.

6. Did Philip Morris support Craig Fuller's activities/participation at the Republican National Convention?
 - Craig took vacation time to work on the Convention in Houston, and his living expenses while doing so were paid for by the Republican National Convention.
 - I'm proud of the PM employees who take time to get involved in civic, community and political affairs in their free time. Craig's performance in Houston and his special relationship with the former President reflect positively on the company.

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Stock Matters

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STOCK MATTERS

(rev. 4/12)

1. Why did the stock go down this year?

- (new) • The price decline does not reflect any broad, company-wide problems in our business, nor any basic weakness in our financial position.
- Rather, the price decline reflects investor concerns relating to domestic cigarette pricing and profitability.

2. Why is the stock so weak?

- Tobacco industry is under attack.
- Litigation remains a concern.
- Threat of higher excise taxes.
- Concern over the impact to date of discount cigarettes.

3. What plans do you have to increase stock price?

- Shareholder value is top priority at Philip Morris.
- Over long term, share price determined by earnings growth. We are committed to achieving strong internal growth.
- We also have aggressive stock repurchase program which clearly demonstrates the Company's faith in the potential market value of its stock.
- The dividend on our common stock was increased 23.8% last August.

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4. What steps are we taking to counter moves for divestment of tobacco shares by institutional investors?
 - We make ourselves available to answer questions from any institution considering divestment.
 - Have developed extensive position papers for financial analysts and institutions.
 - We emphasize very strong long term returns achieved from investment in PM (over 30% annually over the last five years).
5. At what point would you consider a stock split?
 - We have split stock on six occasions since 1965, and one share of stock then is worth 192 shares today.
 - Splits have occurred at prices ranging from \$60 to \$160.
6. How about increasing the dividend payout rate?
 - Anticipate that dividend payout ratio will remain in the current range, but of course cannot say with certainty.
 - Dividend payout has increased each year over last ten years, reflecting strong growth in cash flow. Might continue increase in the future.

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7. What about two classes of stock?
 - We have looked at two classes of stock as well as other alternative structures, as part of an ongoing evaluation aimed at enhancing shareholder value.
8. Is Philip Morris contemplating something along the lines of what RJR is doing, and issuing a separate class of stock pegged to the performance of its food business?
 - We are continually evaluating the merits of different methods of handling stock matters. No firm decision has been taken on this yet.
9. You stated in the *Wall Street Journal* that you were not considering an RJR-type stock plan. Why not? If it's good enough for KKR, why not Philip Morris?
 - There has evidently been a misunderstanding on the part of the WSJ. We are considering a number of alternatives but have not come to any definite conclusion.

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10. Are there plans to repurchase more of the company's stock?

*Conform to
FBI's speed*

(new) • Through March 31, we repurchased 17.3 million shares at a total cost of \$1.2 billion. While we have remaining authority to purchase (\$800 million) additional shares in 1993, our first priority is to maintain a strong financial position, which includes the funding of some \$2.8 billion of previously announced acquisitions. That lowers the priority for share repurchases in 1993.

11. question merged with 10 above

12. How about a Dutch Auction?

- We have no plans at this time for a Dutch auction for the repurchase of our shares.

13. Have certain investment firms changed their recommendation to buy Philip Morris?

(new) • Most analysts are adopting a wait and see attitude to see how the situation develops before making any recommendation.

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14. Who owns Philip Morris?

- Large institutional investors own approximately 70%.
- Individuals, including employees, own remaining 30%.

15. Have the SEC or US Justice Dept. initiated any investigation or brought any enforcement action against the Company or any of its officers and directors regarding insider trading matters?

- No, not to my knowledge (this Q. is being referred to Counsel).

Confidential: SEC has filed a criminal action against a non-officer employee, alleging improper use of insider information.

16. Have any officers or directors sold Company stock on account of smoking and health products liability suits against PM and cigarette industry?

- Cannot say with certainty since we do not know why our officers and directors might sell stock. But to the best of our knowledge, no.

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Taxation

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TAXATION

1. How will the Clinton tax proposals affect Philip Morris?

- Tax bill may not pass before August when Congress adjourns, and will be subject to amendments.
- For 1993, the most adverse provision is the increase in corporate tax rate to 36%, which would result in a tax charge of \$120 million for current taxes and \$17 million for restating our deferred taxes and lease investments.
- The first year catch up is small because we previously adopted FAS 106 for post-retirement medical expenses providing for future tax deductions which would now presumably be deductible at 36%.
- We would recognize a \$30 million benefit in 1993 for investment tax credits. This is an incremental 7% credit based upon capital additions over 70% of our average investment in prior years. For 1994 this credit would be limited to the increase only 80% over the base, and thereafter it would be unavailable for large corporations.
- With a small R&D credit, we estimate the 1993 reduction in earnings to be \$105 million. Our effective tax rate would increase from 1993 OB of 41.3% to 42.6%. Net earnings and EPS growth would consequently decline from 15% to 12.9% and 18.7% to 16.5%, respectively.
- The effect in 1994 and thereafter would be much greater because additional proposals are due to apply in those years. We estimate an annual cost of at least \$250 million.

(continued on next page)

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Other provisions:

- a) additional \$120 million tax cost on our overseas royalties.
- b) disallowance of deduction for lobbying expense.
- c) cap on executive compensation.

2. What is PM's position on VAT/consumption taxes?

- Changing economic and political realities have led us to look anew at the subject of consumption taxes. To that end, we are in the process of conducting an exhaustive internal study of various aspects of a VAT and their impact on the Company.

3. In a recently introduced tax bill there is a provision that all intangible assets be amortized over a 14-year period. What is your opinion of this legislation?

- PM supports it.
- We would also like to see the same concept applied to cases now pending before the IRS, one of which has been pending for six years.
- In Europe, companies making acquisitions are permitted to write off goodwill, so we are at a competitive disadvantage.

4. What is your view on legislation that would increase excise taxes on alcohol and tobacco?

- The greatest impact of excise taxes is on low and middle income families.
- Such taxes are also "hidden" from the consumer, raising prices and decreasing sales.

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5. Suppose a \$2 tax is put on cigarettes, what are you going to do about it?

- We consider that such a tax is unreasonable and regressive.
- We are presently working out what the economic impact would be.
There is no doubt that the inflationary impact will be considerable.
- We will make every effort to discourage such a tax.

6. How badly would it hurt the tobacco industry if federal excise taxes were increased sharply? **NOTE:** see Q. 1 for effect on Philip Morris.

- (new) • We regard such taxes as both grossly unfair and grossly uneconomic.
- Cigarette smokers already pay nearly \$13 billion per year in excise taxes, making them among the most heavily taxed consumers in the country today.
 - If large excise tax increases did lead to lower cigarette volume, they would result in a significant loss of business income and jobs.
 - **One estimate is that raising the federal excise tax by \$2 could throw 846,000 people out of work.**
 - Fully one-third of those job losses (280,000 people) would be right here, in the Southeastern U.S. That's more than four times the region's expected net job loss from scheduled military base closings.
 - It would also rob states and local governments of an important traditional revenue base - to the tune of as much as \$2.8 billion.

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7. What will happen to PM/s excellent credit rating if President Clinton's proposed excise taxes go into effect?
- We expect cash flow to remain same and to see a continuing improvement in our debt-to-equity ratio. Based on these and other factors we fully expect to maintain a favorable credit rating with all major rating agencies.

Following four questions are on Consumer Federal Excise Tax Hot Line

8. Why did Philip Morris set up an "800" number that consumers could call to inform Congress of their opposition to increases in the federal cigarette excise tax?
- This was a short term program that we implemented as a service to our consumers. We received many phone calls from them and the toll-free number provided a handy way for them to contact the Congressional switchboard and state their opposition to the proposed tax increases.
 - The program operated for several weeks in March and was brought to a close when we felt that our consumers had had adequate opportunity to make their views known.
9. Doesn't this sort of program backfire when legislators perceive it as an orchestrated attempt to create the illusion of grass-roots opinion?
- It is possible that some legislators are annoyed when they get a lot of phone calls from angry constituents - but that is the essence of the democratic process.
 - We did not "orchestrate" opinion. Our consumers are already extremely concerned about the proposed tax increases. We did, however, facilitate consumer contact with their elected representatives.

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10. Is it true that some anti-tax legislators are annoyed because the calls are "preaching to the converted?"
- We have not referred any calls to legislators who are known to be opposed to the tax, and have no way of knowing why these calls were made.
11. Didn't a lot of anti-smokers get hold of the 800 number and use it to support a tax increase?
- It's always possible for a publicly available number to be abused by opponents. But the anti-tobacco forces have already made their views well known to legislators.
 - We believe our consumers deserved a chance to make their views known.
12. How badly were we affected in 1992 by state and local excise taxes on cigarettes? What can we expect this year?
- Only seven out of 38 proposed state excise tax increases were passed.
 - At the local level, 28 tax increaes were proposed and 14 passed.
13. The Massachusetts tax has just been increased by 25 cents a pack, and in New York it might increase by 21 cents. Does this mean we are losing the tax battle at the state level?
- Not at all. The Mass initiative made news because it passed, but three other state initiatives (Colorado, Nebraska, Oregon) were quietly defeated.

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14. What percentage of the price of a beer goes to taxes?
- Federal excise tax on a \$ 3.00 six-pack of beer is 68 cents.
15. How much tax cost is passed on to consumers?
- All of it, which is why excise taxes are called "hidden taxes" - the consumer pays the tax in the form of higher prices.
16. Should excise taxes on tobacco and alcohol be increased to pay for the costs of health care reform ?
- Any additional revenue needed for health care reform should come from broad-based, equitable taxes, and not from excise taxes which are regressive.

PM International

17. Will the directive to "harmonize" European cigarette excise taxes affect our business in the EC?
- Agreement may result in large tax increases in Spain and Greece, with modest increases in Italy, France, Luxembourg, Holland and Ireland.
18. How have increased cigarette taxes in Canada affected our business?
- We continue to achieve satisfactory sales and profitability.
 - Decline in cigarette consumption has not been as precipitous as claimed. Drop in sales reflects continuation of trend begun a decade ago.
 - Increases in cross-US border trafficking give false impression of true consumption.

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Trade

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TRADE

1. What impact, if any, will the North American Free Trade Agreement (NAFTA) and the Uruguay Round of International Trade negotiations have on the Company's business?
 - Both undertakings have as their goal the liberalization of international trade in goods and services, and the protection of intellectual property rights such as trademarks. Our company has many of the world's most valuable trademarks. Unfortunately, artificial trade barriers have kept us out of some countries. The removal of trade barriers will provide us with expanded market opportunities.
 - We consider that NAFTA and Uruguay Round are real opportunities for the future.
2. Won't NAFTA result in significant job transfer from the US to Mexico?
 - A recent study by the US International Trade Commission, made at the request of Congress, found that Mexico would gain in employment and economic growth, but Canada and US would also experience increases in employment and economic activity.
 - The greater benefit for Mexico is because its economy is smaller, so any extra boost has a relatively wider effect.
 - ITC report acknowledged that employment in some US industries would be affected, but many other industries would increase their hiring to meet additional demand created by an open Mexican market.
 - ITC projected increase of about 1% in US employment as result of pact.
3. Impact of NAFTA and GATT on KGF Canada covered at end of FOOD OPERATIONS section.

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1992 Annual Meeting
Q&A's

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1992 ANNUAL MEETING Q&A'S

Following matters arose during the discussion period at the 1992 Annual Meeting.

1. Use of company logos on items other than cigarette packs

No discussion at the time, but matter is under "Labeling" (Q. 2) in this book.

2. Mr. Aldrighetti's questions on KGF dealings with NCE and relations with dairy industry are fully covered in first five questions of Food Operations section (Cheese and Dairy).

Mr. Aldrighetti asked for \$1 million grant for domestic rural development projects rather than the \$25,000 grant he knew about. This question was not answered at the 1992 Meeting. Reply for this year could be as follows:

- In January Kraft USA announced the formation of the Kraft Dairy Trust, a new charitable contributions program to support non-profit organizations in their efforts to assist dairy farm families in Wisconsin. The Company has earmarked \$150,000 for 1993 funding.

3. Dr. Slade asked about public disorder and safety in Milwaukee County parkland along shore of Lake Michigan. Matter was going to be discussed with Miller right after the Meeting. We will follow up with Miller to find out if this was resolved.

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4. Dr. Connolly questions on the ITL (It's the Law") campaign and the "Helping Youth Decide" brochure were answered as fully as possible at the time.
Issue covered under Advertising, Q. 10
5. Final question was on Council for Tobacco Research activities. A very full summary is given for this year's meeting under Health, Q. 1

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